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Department for Business, Innovation & Skills

The Customer First Programme: Delivery of student finance

Summary

1 The Customer First Programme (the Programme) was established in 2006 to centralise the processing of applications for student loans and grants in England. Its main aims are to improve customer service (through faster processing and greater consistency); achieve financial savings; and improve governance. The Secretary of State for Business, Innovation and Skills has statutory responsibility for delivery of student finance and the Department for Business, Innovation and Skills (the Department) retains overall accountability for the Programme.

2 The assessment of finance applications had previously been done by local authorities but this role is being centralised and transferred to the Student Loans Company (the Company), a non-departmental public body. The Company began processing applications for new students for the 2009-10 academic year (the first of a three year phased introduction) in February 2009. The service run by the Company for students in England is known as Student Finance England.

3 Following media reports of problems with the Company's handling of applications in 2009, the Minister of State for Higher Education and the Company's Chairman asked Professor Sir Deian Hopkin to undertake a review, which was published in December 2009. The Department and the Company have accepted Professor Hopkin's recommendations in full. We began our evaluation of the first year of the Programme in October 2009 and have been able to go beyond Professor Hopkin's review in four main respects by:

- interrogating the Company's data to analyse its performance;
- surveying 1,000 first-year students regarding their experiences;
- examining financial data to assess value for money; and
- evaluating ongoing risks to the Programme.

Key findings

Developing a centralised system

4 **The Department had a clear rationale for centralising the service, but both the Department and the Company underestimated the risks and did not do enough to mitigate them.** The Company organised premises and staffing in time for the launch of the service, but centralisation involved new management and staff. The work was challenging, involving peaks in demand, complex regulations and inexperienced customers. Although the Company had run a one year pilot in 2006, covering 11 local authorities, and has continued this service, it was insufficient preparation for 2009 when it would be integrating a service previously carried out by 130 authorities.

Processing applications

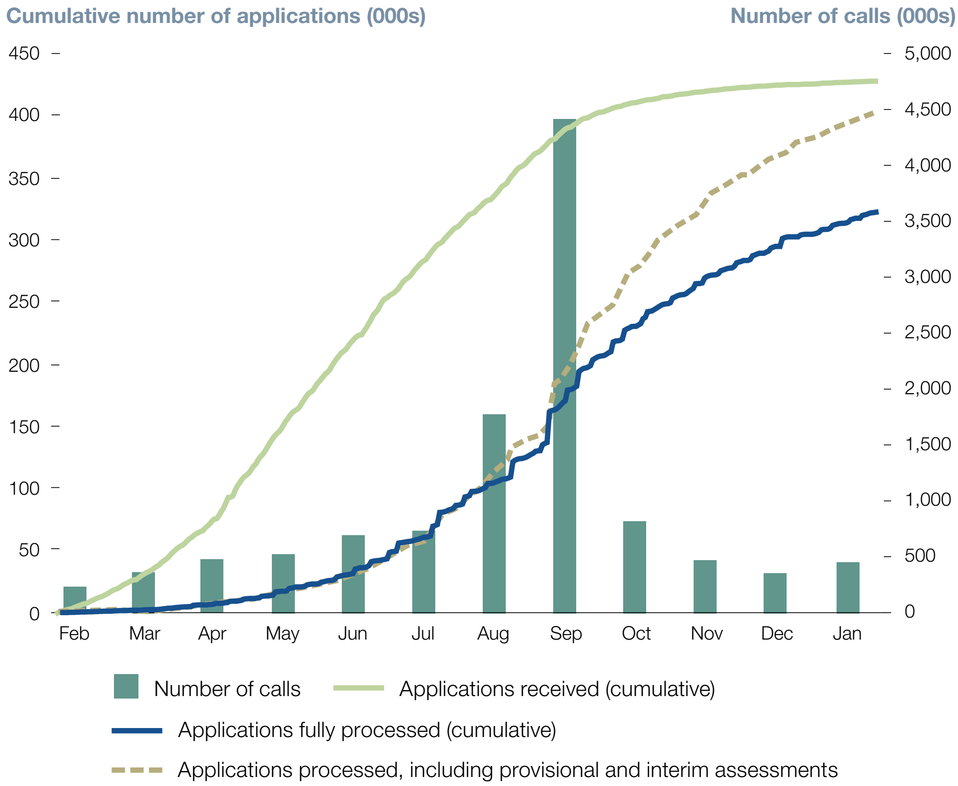
5 **The Company made slow progress in processing applications, with only 46 per cent fully processed by the start of term compared with 63 per cent in 2008-09.** From February 2009, applications arrived more quickly than the Company could process them and, by 6 September, 241,000 new student applications had been received but not fully processed. As a result, with the beginning of term approaching, the volume of phone calls grew dramatically to 4 million in September. From July, the Company made increasing use of provisional and interim assessments (76,300 by the start of term) which allow for faster payment but later require re-working by the Company (**Figure 1** overleaf). The Company considers that provisional and interim assessments are a well-established and legitimate mechanism where there is incomplete information or term start dates are imminent. However, these assessments are not equivalent to fully processed applications as those who receive provisional funding may have to repay part of their award and those who receive interim payments are awarded only the non means-tested amount which may not be adequate for their needs. By 15 November, around two months after the start of term, and with another 27,000 applications having arrived, the Company had fully processed and paid all monies due on 67 per cent of some 412,000 new applications, paid all monies claimed on a further 20 per cent of applications and made some payments on a further 3 per cent. At this time, 5,600 applicants who had applied before the administrative deadlines in April and June had not been paid.

6 **The Programme is intended to reduce processing times, but the average time taken to process an application in 2009-10 was 33 per cent longer than in 2008-09.** Our analysis found that an application took an average of 12.4 weeks to be fully processed in 2009-10, compared with 9.3 weeks in 2008-09 when local authorities were responsible for the assessment process.

7 **Targets for processing applications do not cover the whole process from receipt to approval.** The Company's target measures the time from application received to 'initial decision', which is not the same as fully processed. Fifty-two per cent of the Company's 'initial decisions' were a request from the Company for additional evidence from the applicant to allow the assessment to be completed.

Figure 1

Performance in processing applications and volume of phone calls, 2009-10



Source: National Audit Office analysis of Company data

NOTE

This analysis includes new applications processed by the Company in respect of the 2009-10 academic year and phone calls received by the Company in respect of all applications and loan repayments.

8 **Management information is inadequate for Disabled Students' Allowances and other targeted support.** By 31 December 2009 only 4,000 (24 per cent) of 17,000 applications for the Allowances had been paid, taking an average of 20 weeks. This poor performance was invisible to management because targets set for the Allowances cover only part of the process. For other targeted support (Childcare Grants, Adult Dependants' Grant, and Parents' Learning Allowance) the Company has no management information that makes it possible to measure processing time.

Operational problems

9 The failure of the document scanning system was critical in 2009. A new scanning system was to provide electronic copies of documents to the processing teams. Launched before being fully tested, the system did not work as required and the Company's contingency plan was seriously flawed and its implementation delayed. As paper evidence from applicants arrived the Company failed to store it in a way that was easy to retrieve and a backlog built up. The Company told us that the contract did not sufficiently specify the scale of operation required but the supplier subsequently carried out additional work to enable the scanning system to be relaunched, which it expects to do in March 2010. The Company considers that sufficient contingency planning and testing have been carried out. However, it has been over-optimistic in the past and it remains to be seen whether the system will operate satisfactorily in a live environment in peak months.

Management of demand

10 The Company failed to communicate key messages to applicants that would have helped reduce unnecessary calls. The Company did not explain clearly when people should send in their applications, nor when they should expect to receive finance. The Company's contact centre staff could not answer enquiries because they had insufficient information about applications. IT changes could also have reduced unnecessary calls.

11 The Company failed to engage key stakeholders effectively. Communications with stakeholder organisations such as schools, universities and the Universities and Colleges Admissions Service (UCAS) were inadequate. These bodies could have helped keep applicants informed and provided insight to the Company. The Company is now setting up a new stakeholder forum.

Customer experience

12 Customer experience was very poor, particularly for those trying to telephone the Company. Over the period February 2009 to January 2010 the Company answered only 21 per cent of calls within 60 seconds, with 56 per cent unanswered. In the worst month (September), 87 per cent were unanswered.

Financial savings

13 **The Company controlled its delegated Programme budget by making savings on operating costs, and the Department expects to achieve the planned annual savings of around £20 million from 2011-12.** The Department expected the centralisation of the service to achieve these savings compared with local authorities for an initial investment of £41 million. With implementation costs exceeding estimates by £8 million, the Company has broadly stayed within its agreed funding for the Programme by reducing operating costs and deferring some elements of service improvement. In March 2010, the Department agreed in principle to provide additional operating cost funding of £9.8 million in 2010-11, but it expects the Company to bear down on its operating costs and to make a reasoned case for the level of funding it considers necessary in future. In addition, applicants and higher education institutions have incurred costs as a result of the problems in 2009.

Oversight of the Customer First Programme

14 **The Company's Board did not perform its oversight role effectively.** It was not aware of difficulties with processing applications until it was too late to prevent major problems. The Department modified the Company's framework for governance in 2009, and expected this to strengthen the governance of the Programme as well but is concerned that this was not effective in bringing about the changes it wanted to see. The Company considers that the Department conveyed neither this expectation nor this concern to its Board. The Company's Board is due to be strengthened during 2010, with the recruitment of three non-executive directors.

15 **The Customer First Programme Board lacked expertise.** Chaired by the Department, it has one representative from the Company and one from HM Revenue & Customs (which is delivering specific work within the Programme). The Programme Board has no expertise in IT, finance or human resources, nor any experience of undertaking a major centralisation project. The Department had wanted these skills to be involved at sub-programme board level, to encourage the delivery bodies to take full responsibility. However, this should not have been a substitute for the Department bringing in expertise to support its scrutiny. The Department is now proposing to strengthen the Programme Board by bringing in experts to challenge the Company.

16 **The Department did not monitor the Student Loans Company effectively.** The Department sought to be 'light touch' in its commissioning and oversight of the Programme, delegating operational responsibility to the Company. It accepted the Company's over-optimistic view that it would deliver a good service in 2009, and it was not aware of difficulties with processing applications until it followed up a specific complaint from a customer at the end of August. The Department's experiences of problems with other devolved delivery and the weaknesses in the Company that it had identified in 2006 should have served as a warning of the risks attached to such a challenging programme. In particular, the management information requested by the Department did not present an accurate picture of performance.

Ongoing risks

17 **Avoiding a recurrence of the 2009 problems is of the highest priority for 2010, but substantial risks remain to the successful delivery of the service.** The service in 2009 was unacceptable and the Department and the Company recognise the need to address the serious failings. The Company expects to process at least twice as many applications in 2010, when it becomes responsible for applications from both first and second years, and it is unproven whether it has the capability to provide a good service this year. The Company needs to increase capacity in processing and its contact centre in the peak months, and use this year's additional funding effectively. The Department may need to defer its requirement for operating cost savings in order to achieve greater assurance that sufficient resources are deployed in time to meet demand. It must also consider how it would respond to a recurrence of the failures of 2009.

Value for money conclusion

18 The Student Finance England service did not achieve value for money in 2009, with major problems in the processing of applications and customer contact. The Company took 33 per cent longer to process applications in 2009 compared with local authorities in 2008; and only 46 per cent of new applications had been fully processed by the start of term. The Company has not allocated sufficient resources to processing applications for Disabled Students' Allowances and other targeted support; and some applicants may have been deterred from starting or continuing in higher education. The Department and the Company's Board underestimated the very challenging nature of the Programme and lacked sight of the mounting problems, resulting in a failure to act swiftly or effectively. There is a strong rationale for continuing the centralisation, and the Department still expects to secure savings of around £20 million a year from 2011-12. However, this benefit would be outweighed greatly by continued poor service in administering £5.4 billion of loans, grants and allowances.

19 In 2010 the Department and the Company must give the highest priority to achieving a radical improvement in the service, while managing substantial risks. An incremental improvement will not be enough to restore the confidence of applicants and stakeholders and the reputation of the Company and the Department.

Recommendations

Timing is critical to success. Our recommendations need to be implemented urgently and driven forward simultaneously where possible, with constant monitoring of a critical path leading to the successful delivery of student finance for the 2010-11 academic year.

a **The Department and Company must do everything possible to avoid repeating the serious failings of 2009. In particular, the Department should:**

- develop clear, customer-focused targets for all loans, grants and allowances covering the process from application to approval;
- improve its oversight of operations, including by obtaining professional expertise to advise on service readiness;
- strengthen the Programme Board to include the right skills; and
- ensure the Company is not overburdened with change requirements during 2010.

b **The Department and the Company's Board should actively monitor the Company's implementation of the following actions:**

- deploy sufficient, flexible resources to process applications and handle customer contact to at least the standards agreed with the Department during 2010;
- activate robust contingency plans in the event that significant backlogs start to develop;
- reduce unnecessary calls, through proactive and frequent communications with customers and stakeholders, for example, by letting applicants know when they will receive their finance;
- establish an improved management information regime to track operational performance; and
- use the recruitment of new executives to drive through a real improvement in the Company's culture and quality of management throughout.

c **The Department and Company urgently need to strengthen their relationship so that there is mutual trust, open communication and shared understanding of how to deliver the service this year.**

d **The Department must undertake an urgent options appraisal to determine how best to deliver the service from 2011 onwards if the service should fail to improve radically. Options should include:**

- continuing with the Company;
- appointing an alternative provider to deliver part of the service, such as targeted support; and
- appointing an alternative provider to replace the Company in delivering the entire service.

e **The Department and Company should work together to simplify the Student Finance England service through streamlining processes and regulations, and pressing ahead with the planned improvements in technologies, prioritising those which offer the clearest value for money.**

f **Government departments should learn from the problems encountered by the Company and the Department in 2009, focusing in particular on:**

- the need for realistic programme risk assessments;
- designing programme implementation so that departments are not committed to a service delivery model before they can be sure that they will be successful;
- achieving the right balance between implementation costs, operating costs and service levels; and
- developing oversight mechanisms that involve sufficient skills and experience, robust information, and a willingness to challenge service providers effectively.

In addition, we fully endorse the recommendations of the Hopkin Review (www.bis.gov.uk/hopkin).