National Audit Office

Note
by the National Audit Office

Our enquiries into Civil Service Learning's contract with Capita

MARCH 2015

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1 This note summarises our findings on the Civil Service Learning contract (the Contract) with Capita Business Services Ltd (Capita). Our enquiries address specific concerns from several people who raised different but overlapping concerns about the operation of the contract. This note addresses these concerns together.

2 The Contract allows departments to purchase external training for their staff through a single gateway managed by the Cabinet Office and is designed to make savings by using the government's combined purchasing power. Under the Contract, Capita provides a full managed service, which means it plays a key role in developing training courses, sourcing training providers, administering course bookings and charges, evaluating events and paying training suppliers.

3 We combined people's concerns into four questions:

- Does Capita use anti-compete clauses in its contracts with subcontractors?
- Does Capita put 51% of the training out to open competition, as required?
- Does Capita abide by 30-day payment terms for subcontractors?
- Does Capita correctly calculate and charge management fees at the contractually agreed rates?

4 We also reviewed the methodology used by Cabinet Office to assess whether the contract is delivering savings and whether departments might be paying more for training than previously.

Scope and methodology

5 Our enquiries were designed to establish facts about the contract and find out if correspondents' concerns were valid. We did not evaluate the contract's overall value for money and we do not conclude about the contract overall. We did not look at allegations about the training's quality or content, the behaviour or general relationship between Capita and its subcontractors, or issues of intellectual property rights, all of which would have required a more extensive review.

6 We talked to the Crown Commercial Service and Civil Service Learning (CSL), as part of our normal audit relationship with the Cabinet Office. We used our audit rights under the contract to review Capita's management information systems and financial records, and to talk to Capita staff. Capita has cooperated fully with our enquiries, but in one case Capita told us it could not find the information we requested, though this has not materially affected our conclusions.

7 We also reviewed Capita's data and documents, held interviews with Capita, Crown Commercial Service and CSL staff and did our own data analysis. We examined data on all courses supplied through Capita and invoices paid to its subcontractors. We verified these data by sampling back to Capita's core accounting and information systems and 'walking through' various Capita processes. We have not verified the integrity of Capita's core accounting and information systems.

8 At the time of our work, the Crown Commercial Service, which let the contract on behalf of CSL, was also examining whether Capita paid subcontractors on time and the proportion of courses put to the open market. We worked with the Crown Commercial Service's team to get more assurance on these issues than we would get working independently.

9 See Appendix One for more details of our methods.

Observations

10 We highlight two observations, before we set out our detailed findings.

Savings methodology

11 CSL aims to make substantial savings in the procurement of training by creating a common curriculum, ensuring that other training is competitively procured, and enabling the reduction of learning and development staff across the civil service. Our 2011 report on central government's training found that, before the creation of the CSL, some departments were paying up to four times more than others for similar courses.[1] We concluded that CSL *"should expedite plans to eradicate duplication, identify further efficiencies and improve quality in areas of high priority profession-specific and technical training".* Nothing from our recent enquiries, which have been very limited in scope, has changed our view that CSL's centralised approach offers the potential for improvement over what was there before, nor our view that there remains risks to value for money including the need in departments for better alignment, deployment and integration of staff skills with business requirements.

12 Cabinet Office presents a strong argument for claiming that the CSL contract with Capita has already delivered savings compared to prior practice. It has recorded £89 million of savings since 2012, of which 87% is from savings in the delivery of core curriculum courses. We have found issues with the precise measurement of these savings, but knew that measuring them would be difficult. Our 2011 report warned that *"unless performance benchmarks are established, the effectiveness of Civil Service Learning will be difficult to demonstrate"*. Our 2015 enquiries found the baseline for bespoke training courses, the area that most complaints have focused on, representing 10% of the overall savings, is not as robust as that for the core curriculum, which represents 87% of the overall savings calculation. As a result, Cabinet Office are in a reasonable position to claim that the overall strategy of centralising training is delivering savings, particularly in the core curriculum, but is not in a position to say whether the procurement of bespoke training through the Capita contract is achieving sufficient savings to offset Capita's management fee for those courses.

[1] Report by the Comptroller and Auditor General, *Identifying and meeting central government's skills requirements*, Session 2010–2012, HC 1276, National Audit Office, July 2011.

Transparency

13 Many complaints were about basic information that would be publicised if training providers had contracted with the government rather than with a managed services supplier. For instance, the government aims to publish every award, its value and the actual contract document on its Contract Finder website. Details of invoices paid are available on departments' websites. For some contracts, such as the Work Programme, government publishes details of contractual performance. Much of what we record in this note should be published as a matter of course. Cabinet Office needs to think how to apply its transparency standards to service providers who manage supply chains on government's behalf.

Background

Civil Service Learning

14 Civil Service Learning (CSL) is part of the Cabinet Office, but departments fund it through a charge for each employee. It reports to a cross-government management team chaired by the Head of Civil Service Human Resources. CSL became operational in April 2011. It is designed to improve the quality of 'generic' civil service training while aiming to save an estimated £90 million a year against 2009-10 spend on civil service human resources.

15 CSL plans to save money by centralising training development and procurement. It aims to reduce variation in the quality and cost for courses on the same subject and make economies of scale across the civil service. For example, departments ran 250 different leadership courses in 2010-11.[2] These have now been replaced by standard courses, through a small number of suppliers. It has set a standard 'common curriculum' for departments, which includes training on:

- civil service practices;
- mandatory training (such as health and safety);
- leadership and management training and modules for 'core skills'; and
- professional training (such as project management, finance and commercial skills).

[2] See Footnote 1.

16 CSL aims for centralisation to increase competition, particularly on price, by advertising more bid opportunities to small and medium enterprises (SMEs) and others through a single portal. This centralised model prevents suppliers from providing training courses that compete with common curriculum courses directly to departments. As a result, any training provider who had built their business around strong relationships with particular public organisations, or by differentiating their training for common curriculum subjects, is likely to find the new arrangements a direct threat to their business model.

The contracts

17 The CSL contract with Capita is a call-off contract from the Crown Commercial Service's learning and development (L&D) framework. This L&D framework agreement was to source a single prime contractor to manage the centralised provision of learning and development for UK public sector bodies. The services provided through the framework have two main parts:

- face-to-face provision (for example training for the core common curriculum skills); and
- support services (including developing new training courses, selecting training providers, administering course bookings and charges, evaluating events and paying training suppliers, and accreditation).

18 Capita directly invoices departments for training provided and payments are made directly by departments to Capita. However, departments do not have a direct contractual relationship with Capita. CSL remains as Capita's customer and the contractual rights and obligations rest with CSL. The Crown Commercial Service acts as agents to CSL in administering the Capita contract.

How the contract was let

19 Capita won the tender to administer the L&D framework in competition with three other potential providers. Tenders were judged on quality and price. Capita's quality score was 7.2% higher than the scores of the next ranked supplier and 26.3% higher than the fourth placed tender. Capita was the second lowest priced in the competition by a narrow margin and won overall partly based on quality.

20 CSL immediately set up a call-off contract from the framework. This CSL contract was for an initial term of two years (March 2012 to March 2014) and has been extended for two further 12-month periods to March 2016. The contract is worth up to £250 million and Capita has received £90 million to date, the majority of which was passed to subcontractors.

21 The contract is due to end in March 2016 and the Cabinet Office is currently designing the procurement of its replacement. It is expected that the procurement for its replacement will take place shortly after the General Election in May 2015.

Findings on anti-compete clauses

22 Some of our correspondents said that Capita was behaving anti-competitively by putting anti-compete clauses in its contracts with training providers. An anti-compete (or non-compete) clause is used in contracts to restrict a contractual party's commercial activities. There are a number of legitimate reasons for this type of term, for example to protect commercially sensitive information. We reviewed Capita contracts with its subcontractors for anti-compete clauses and asked CSL and Capita to justify their inclusion.

23 CSL tried to ensure that all departmental training was sourced through the contract. Capita must report to CSL any department that approaches them seeking equivalent training services to those provided under the contract. This requirement is written into the CSL contract with Capita as clause 6.2:

> *"In the event that any Other Contracting Body makes an approach to the Supplier with a request for the Supply of Goods and/or Services which are the same as or similar to the Available Goods and/or Services (“**Equivalent Goods and/or Services"**), the Supplier shall promptly and in any event within five (5) days of the request by the Other Contracting Body, and before any Supply of Equivalent Goods and/or Services is made, inform such Other Contracting Body of the existence of this Framework and its ability to place Orders for Available Goods and/or Services pursuant to it."*

24 Capita cascaded this requirement to subcontractors as clause 27.1 in Capita's standard back-to-back contracts with training providers as:

> *"Where the Supplier is aware of, or is requested to contract or provide a proposal by, a contracting authority (as that term is understood in Regulation 3 of the Public Contracts Regulations 2006) that has a requirement for training services that could fall within the definition of the Services, the Supplier shall promptly inform Capita of such requirement. In the case that the contracting authority approaches the Supplier in respect of such requirement, the Supplier shall direct that contracting authority to Capita, in Capita's capacity as the prime contractor for the Civil Service Learning contract. All reasonable assistance in facilitating communications and introductions shall be provided by the Supplier to Capita and the contracting authority."*

25 Similarly clause 44.1 of the framework requires Capita to get CSL to agree to any proposed marketing. Capita's back-to-back contract passes this requirement on to its own subcontractors at clause 23.8:

> *"Save as required by law, no publicity or advertising shall be released by the Supplier in connection with the subject matter of this Agreement without the prior written approval of Capita, which shall not be unreasonably withheld."*

26 There were two further anti-compete clauses in the back-to-back contracts with the subcontractors, which do not have a similar requirement in the framework. Clause 13.2 said:

> *"Each party agrees not to solicit, offer employment to, nor use the services of any employee of the other party who is involved in performing this Agreement (otherwise than by general advertising) during the Term and for a period of twelve (12) months from the date of termination or expiry of this Agreement, except as expressly provided for in this Agreement or where the previous consent of the other party has been obtained in writing."*

27 Capita told us that this is a standard industry provision, which is not intended to apply to normal recruitment processes. It is designed to protect commercially sensitive information from passing from one competitor to another.

28 Clause 13.1 stated:

> *"The Supplier covenants that it shall not without the prior written consent of Capita during the Term or for a period of twelve (12) months following the date of expiry or termination of this Agreement either directly or indirectly, on its own behalf or on behalf of any person, solicit, accept or facilitate the acceptance of, or deal with the custom of, any Client with whom the Supplier has dealt during the course of this Agreement."*

29 Subcontractors told us that they believe that clause 13.1 was anti-competitive as it could prevent them from bidding against Capita when the whole contract was retendered. This is due to happen during 2015, so that services can continue when the contract ends in April 2016.

30 Capita told us that CSL requested clause 13.1 to ensure that all departmental training requests were processed through CSL and not directly with the market. Neither party could find any record of discussing the details of the clauses when the contract was let. However, we saw evidence from May 2012 that CSL asked Capita to ensure one of its Prime Providers stopped soliciting work from departments. Also, CSL advised departments to block unsolicited direct marketing that directly competed against common curriculum products

31 At CSL's request clause 13.1 was removed from all new contracts issued from December 2014. Capita wrote to all subcontractors over January and February 2015 to formally remove clause 13.1. The other clauses discussed above remain in the contracts.

Findings on the amount going to open tender

Whether Capita is putting 51% of the training out to open competition

32 Some of our correspondents said that Capita was not subcontracting a fair share of the work under the contract to small companies. The service level agreement Key Performance Indicator (KPI) 2.1 within the CSL contract states that Capita should:

> *"secure the majority, in terms of value, of the Customers face to face design and delivery of training services by advertising opportunities in a transparent manner via the open market and to encourage participation from the SME market to drive value for money".*

33 Companies providing training under the CSL contract are grouped in one of three categories:

- **Prime Providers**
  These provide most of the core curriculum courses. Capita selects the appropriate Prime Provider with the agreement of departments. The Prime Providers therefore have 'first refusal' on any departmental requests for core courses. Originally, the Prime Providers were the companies that formed the consortium that bid for the contract with Capita. They have increased in number to 40 companies, as new providers joined the consortium with the agreement of CSL.

- **Open competition**
  Under the CSL contract, at least 51% by value of training must be offered to the open market. Both Prime Providers and any other training suppliers can bid for work through a website portal managed by Capita. Any supplier wishing to compete for government training work can register on the website and are automatically alerted to new contracts in the areas they specify.

- **Associates**
  These are normally small businesses and sole traders who are subcontractors for the Prime Providers. They provide core curriculum courses across the country and help during peak periods of demand.

34 Capita reports monthly to CSL on its contract performance. In January 2015, it reported exceeding the 51% KPI target by:

- providing £66 million (73%) of all training to date through the open market, of which Capita won £2 million; and

- providing £24 million (27%) through Prime Providers without using the open competition website, of which Capita supplied £3 million (13%) itself.

35 We verified performance on KPI 2.1 by reviewing, jointly with the Crown Commercial Service's Internal Audit, a representative sample of 60 training events delivered between December 2012 and November 2014 which were classified as open competition by Capita. We then examined documentary or computer based evidence that the course had been competed either by:

- advertising on the internet portal (for new training courses);
- e-mailing a minimum of three associates (common curriculum); or
- using a comparable competitive method (for early courses).

36 The 60 events we examined were covered by 34 separate procurement exercises with a combined value of £30.1 million (44% of the value of training reported as open competition by Capita). Of these exercises, 9 procurements, with a combined value of £1.2 million (4% by value) had been wrongly classified as open competition. Eight of these were awarded to a Prime Provider without competition. In the other, the department had requested a specific supplier be appointed and this procurement was classified as open competition by agreement between CSL and Capita. Two of the misclassified procurements were awarded to Capita.

37 The remaining 25 procurements, with a combined value of £28.9 million (96% by value) had been subject to competition:

- a total of 21 procurements covering events with a combined value of £23.2 million (77%) had been openly advertised or offered to training associates as required.
- the remaining 4 early procurements, with a combined value of £5.7 million (19%) had, with CSL's agreement, been allocated to Prime Providers. CSL agreed that these procurements be classified as open competition as these suppliers had only recently been competitively selected by Capita.

38 Capita had not introduced standard documentation for recording the actions taken and decisions made on open competitions. As a result it proved difficult to confirm that agreed procedures had been followed at all stages. Given the lack of a clear audit trail and the level of misclassifications found, we conclude that Capita has not achieved 73% of training through the open market as it reported in January 2015. However, the small value of the procurements which were misclassified in our sample suggests that it is highly likely that Capita has exceeded its KPI target of 51%.

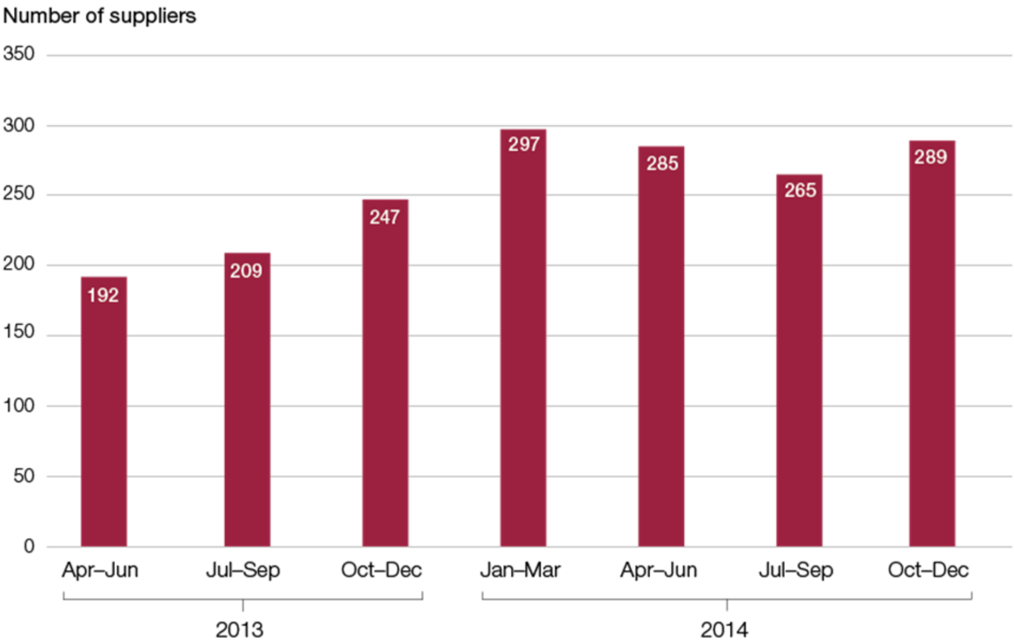
Whether Capita is subcontracting to small companies?

39 To January 2015, Capita has used 583 suppliers to provide CSL training. In each quarter in 2014, more than 265 different companies provided training through the CSL contract (**Figure 1**). However, 6 Prime Providers have provided 33% of the training by value (**Figure 2**).

Figure 1

Training suppliers paid each quarter, April 2013 to December 2014

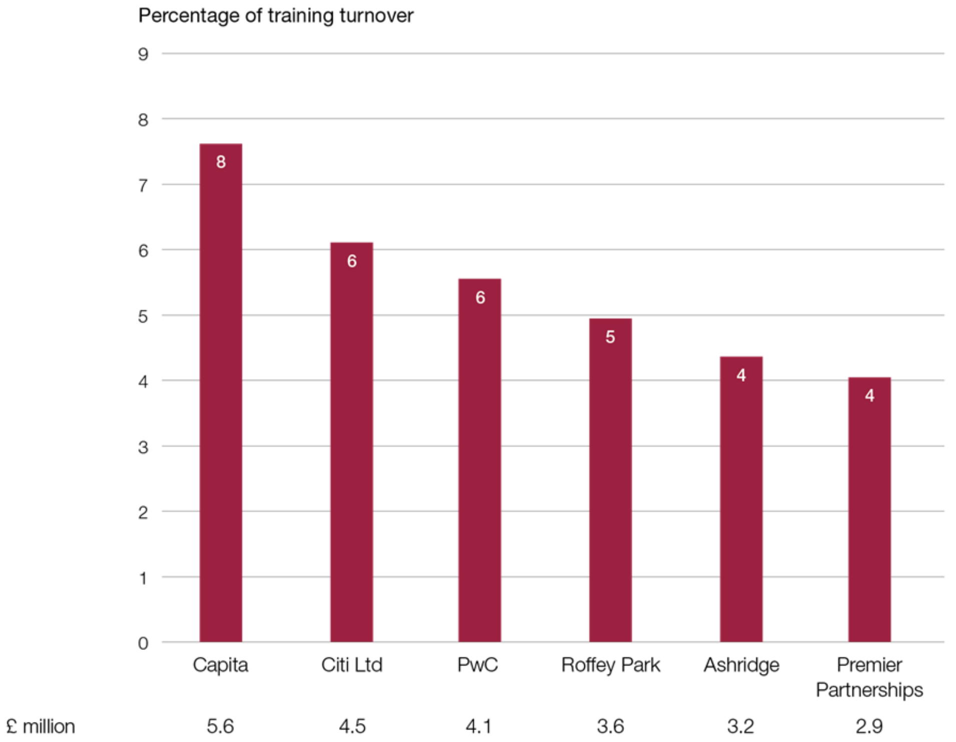
The number of training suppliers delivering CSL courses increased steadily until 2014 and between 265 and 297 suppliers were used every three months during 2014



Source: National Audit Office analysis of Capita data

Figure 2
The major suppliers share of CSL training, since 2012

The top 6 suppliers are Prime Providers and have provided 33% of the training by value. The remaining 67% has been provided by 577 other suppliers



Note

1 Excludes Capita's management fees and other costs.

Source: National Audit Office analysis of Capita data

Capita's subsidiaries in the supply chain

40 Some of our correspondents said that Capita is competing against small companies in the open market, while buying up its successful competitors. To date, Capita subsidiaries have won £2 million of the open competition courses and been awarded £3 million as a Prime Provider.

41 Capita subsidiaries can compete for any open competition courses advertised on the web portal. CSL manages this potential conflict of interest by producing, with the department in question, a price-and-quality assessment. Although under the Contract Capita are entitled to award certain types of training to one of its 40 Prime Providers, in practice, Capita seek the agreement of the department for most contracts awarded to Prime Providers. Capita subsidiaries are automatically counted as Prime Providers for performance recording purposes.

42 Capita plc is active in expanding its businesses through acquisitions. It has bought five companies in recent years that could have potentially competed against Capita in providing training to departments. These new subsidiaries to Capita have received limited work through the CSL contract to date:

- **Knowledgepool**
  Knowledgepool was one of Capita's competitors for the Contract in 2011. It provides a training management service to a major bank. It does not provide face-to-face training and has received no income from the CSL contract.

- **Bluesky**
  Bluesky offers training in customer service, sales and leadership improvement including senior-level coaching. Since Bluesky was purchased by Capita, it has received CSL contracts worth £93,000.

- **Creating Careers**
  Creating Careers provides NVQ and e-learning for schools and colleges and has not received any CSL work to date.

- **Fire Service College**
  The Fire Service College offers fire service training. It has not yet provided training under the CSL contract – although it is currently negotiating providing training to the Highways Agency.

- **G2G3**
  G2G3 creates simulations for IT organisations and large enterprises. It has not received any work from the CSL contract.

Findings on whether Capita are making late payments

On performance against the 30 day KPI

43 Some correspondents said they had not been paid on time by Capita. The service level agreement (KPI 2.2) within the CSL contract states:

> *"Payment of supply chain within a maximum of 30 days 100%"*

44 Capita's data shows that it has not met KPI 2.2 since the start of the contract. We checked Capita's management information behind this KPI by visiting Capita's offices to walk through the invoice payment procedure. We examined a sample of 30 invoices from November 2014 to analyse payment performance against a revised measurement standard and reviewed summaries of all invoices that Capita paid under the contract.

45 Capita provides CSL data on its performance against late payments in weekly supplier payment reports and monthly management information (MI) reports. In May 2014 Capita notified CSL that the MI reporting during the contract did not match its weekly reporting to CSL on the supplier payments KPI. It adjusted its reporting of the KPI from 99% in May 2014 to 80% in June 2014.

46 The contract with Capita did not contain a specific service credit or penalty for non-performance of KPI 2.2. The contract also does not specify how the payment of the supply chain within a maximum of 30 days should be measured or how Capita should determine a valid invoice for the purpose of this KPI. The contract has a general provision for remedies that stated that the Authority could withhold payment of sums related to the service not provided. It is not clear how this would be calculated for this KPI. CSL has not withheld any payment for non-compliance of the KPI. The Crown Commercial Service informed us that they are currently considering how the penalty regime for KPI underperformance might be strengthened and applied.

47 Shortly after being informed of the error in reporting against KPI 2.2, CSL asked Capita to produce an improvement plan. Capita produced a Supplier Invoice Improvement Plan in June 2014. Part of this improvement plan was to improve the communication in order to reduce supplier invoice errors. Capita's invoicing system has developed over time and can be categorised into 4 key stages:

- **Before November 2014**

  Capita monitored supplier payments, measuring performance from the invoice date to instructing Bacs to make payment. The normal performance measure for paying suppliers is from the date a valid invoice is received to the date the supplier's bank account receives payment.[3] Capita's methodology is harder to

[3] This is based on the Late Payment of Commercial Debts Regulations 2013. Also see the report by the Comptroller and Auditor General, *Paying government suppliers on time,* Session 2014-15, HC 906, National Audit Office, January 2015.

achieve and subject to more error. Capita's financial systems do not record the actual date a valid invoice is received and the date shown on the invoice is often several days (or weeks) before receipt. We analysed Capita's performance during this period, using their methodology. Since April 2013, Capita paid around 70% to 90% of all invoices within 30 days with a significant drop in performance over the Christmas period (**Figure 3**).

- **In June 2014**

  Capita began to carry out an improvement plan to address its poor performance, including ways to reduce cases where invoices were wrongly rejected when non-standard terms had been agreed with suppliers. It introduced a new payment system in October 2014 to log the actual date invoices are received and when queries were raised with the suppliers on invalid invoices. Capita aims to email suppliers within three working days from invoice receipt, detailing any problems preventing payment.

- **From November 2014**

  Capita introduced a new reporting system that measured performance from when a valid invoice was first received or when any query had been resolved for invalid invoices. This system was initially successful. In November 2014, Capita paid 98% of valid invoices within 30 days (compared with 82% of invoices when measured from the invoice date). However, problems occurred in December, requiring some invoices to be processed manually. There were then delays in payments and the success rate for valid invoices fell to 92.4% in December 2014.

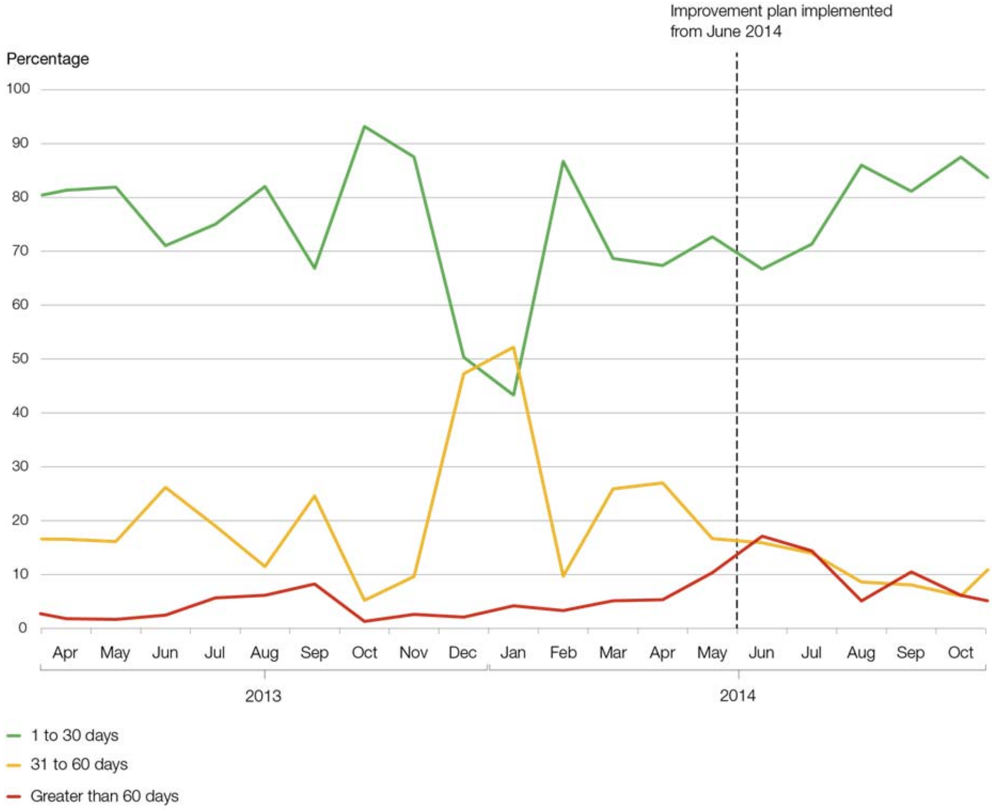
- **February 2015 onwards**

  Capita told us that they have corrected problems with the new invoicing system, cleared the backlog of unpaid invoices, and they now anticipate performing at close to 100%.[4] We could not verify this improvement at the time of our visit.

[4] Some suppliers do not send invoices by email as requested and these continue to be measured from the invoice date.

Figure 3
Capita's payment of suppliers' invoices, April 2013 to October 2014

Since April 2013, Capita paid around 70% to 90% of all invoices within 30 days, with a significant drop in performance over the Christmas period



Notes

1 This measures performance from the supplier's invoice date to Capita authorising Bacs to make payment.

2 Reported performance from November 2014 is not comparable as it is based on valid invoices from date received.

Source: National Audit Office analysis of all Civil Service Learning training invoices that Capita paid

On 40-day payment terms

48 Some of our correspondents told us that Capita had changed their payment terms to 40 days. Capita confirmed that in October 2013 it wrote to around 150 of its training suppliers, as part of a wider communication to suppliers, saying that their payment terms would now be 40 days. Capita said that this change to its normal payment terms was not intended to apply to work under the CSL contract. In February 2015, Capita reissued contracts to CSL suppliers to formally reinstate the 30-day term. We found no evidence that CSL subcontractors were paid at 40 days other than by chance during this period. Capita's financial system normally pays valid training invoices 21 days from the invoice date or, thereafter, as soon as all internal checks are satisfactory.[5]

On whether Capita benefited by delaying payments

49 Some of our correspondents alleged that Capita deliberately withheld payment while benefiting from early payments from customers. Under the contract, Capita should invoice CSL customers at the end of the month in which the training is booked, which may be before the receipt of an invoice from the training subcontractor. Where Capita receives payment from departments and does not immediately pass that payment on to subcontractors, it will receive a financing benefit. We found no evidence that Capita has deliberately withheld payment of valid invoices (see paragraph 48 above). However, Capita believes that it has a net financing loss on the contract because departments have been slow to pay course fees. Although departments' policy is to pay at least 80% of valid invoices within 5 working days and all invoices within 30 days, our recent report found that this was not being achieved.[6] Our analysis of data from Capita's financial systems on its subcontractor invoices and course fees suggests that Capita is funding a gap which has widened in recent months to around £4 million (**Figure 4**)[7].

50 CSL confirmed that it was aware of the issues surrounding slow payment of training invoices by departments. CSL has agreed to pay Capita the statutory interest rate of 8.5% (base rate plus 800 basis points) for a limited period on invoices over 30 days old, less overdue payments to its subcontractors. Irrespective of when Capita gets paid by departments, it remains contractually obliged to pay its subcontractors within 30 days.

[5] This policy was changed in December 2014 to payment after 7 days if other checks have been completed.

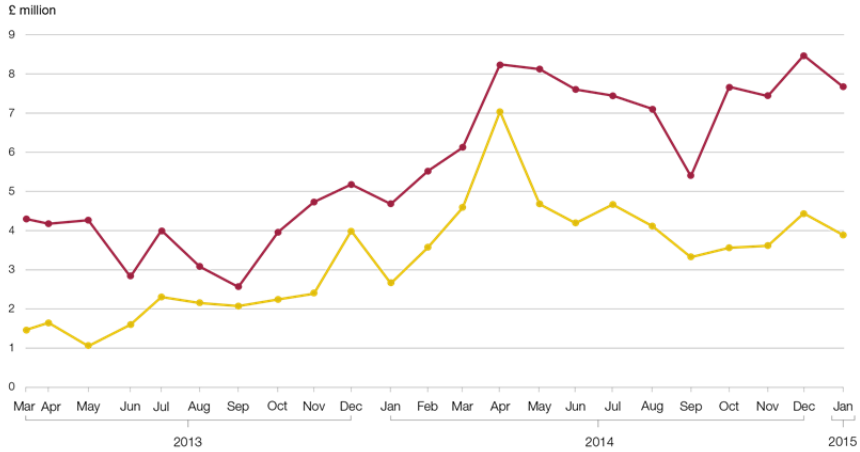
[6] See Footnote 3.

[7] We have not formally audited Capita’s financial systems.

Figure 4

Capita debtor and creditor analysis on the CSL contract, April 2013 to January 2015

This graph shows the amount outstanding to be paid by government to Capita and by Capita to its subcontractors. It suggests that Capita is not benefiting from pre-funding of courses by departments before it pays its subcontractors



	2013 Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Unpaid course fees	4.3	4.2	4.3	2.8	4.0	3.1	2.6	4.0	4.7	5.2
Unpaid subcontractor invoices	1.5	1.6	1.1	1.6	2.3	2.2	2.1	2.2	2.4	4.0
Net	2.8	2.5	3.2	1.2	1.7	0.9	0.5	1.7	2.3	1.2

	2014 Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	2015 Jan
Unpaid course fees	4.7	5.5	6.1	8.2	8.1	7.6	7.4	7.1	5.4	7.7	7.4	8.5	7.7
Unpaid subcontractor invoices	2.7	3.6	4.6	7.0	4.7	4.2	4.7	4.1	3.3	3.6	3.6	4.4	3.9
Net	2.0	2.0	1.5	1.2	3.4	3.4	2.8	3.0	2.1	4.1	3.8	4.0	3.8

Notes

1 Unpaid course fees are based on Capita's mid-monthly aged debtor reports which analyse all invoices sent to departments which are shown as unpaid at that date on Capita's financial systems.

2 Departments' systems will show a different amount of unpaid course fees due to differences in timing of recording the invoice as sent, received and paid.

3 Unpaid invoices are based on the total of subcontractors' invoices received by Capita which are dated on or before the relevant date, less total payments made.

4 Figures may not sum exactly due to rounding.

Source: Capita data

Findings on whether Capita is correctly calculating its management fee

51 Some correspondents said that Capita had incorrectly calculated its management fee and were therefore overcharging departments. Capita charges a management fee on every course, regardless of the training provider, for managing the overall contract. This management fee – sometimes called the 'margin', the 'service fee' or the 'service wrap' – is designed to cover:

- designing and developing dedicated products;
- providing materials and equipment;
- sourcing requirements via open competition;
- course evaluation;
- contract management and invoicing; and
- administration and overheads (including profit).

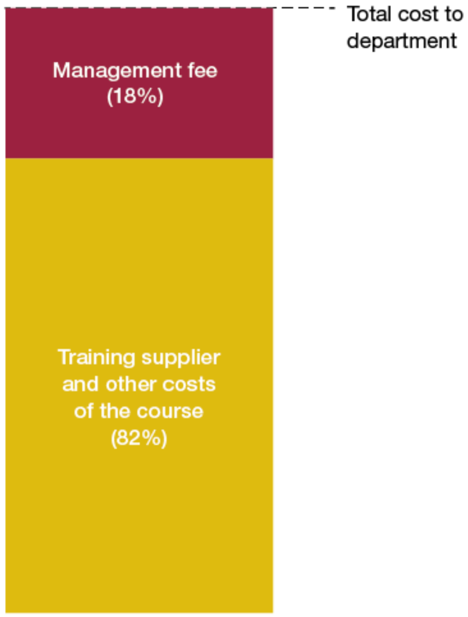
52 The calculation of the overall charge and the size of the management for every course depends on whether it was fixed during the original competition:

- The overall price for most common curriculum courses was fixed during the original 2011 competitive tender process. The implicit management fee (the amount paid to Capita less the amount paid to the training provider) on these fixed price courses ranges considerably depending on the deal Capita achieved during the tendering process. On average this is higher than for courses where the price was not fixed at the start of the contract.
- The overall price for any course that was not fixed during the original tendering process is made up of the subcontractor's charge plus an explicit management fee. This management fee is calculated as a percentage of the total charges paid by the departments or delegates for the course **(Figure 5**). Capita applied a standard management fee of 22.2% until March 2014. From April 2014, following negotiation over the extension of the contract, Capita reduced this fee to between 16% and 18% depending on the size of the course. Capita has also voluntarily reduced the management fee further in some cases where they were less involved in sourcing and managing the course.

Figure 5

The management fee is calculated as a percentage of the total price departments pay

For example, if a new course costs £82 per head to provide, an 18% management fee results in a £100 fee charged to each attendee



Source: National Audit Office

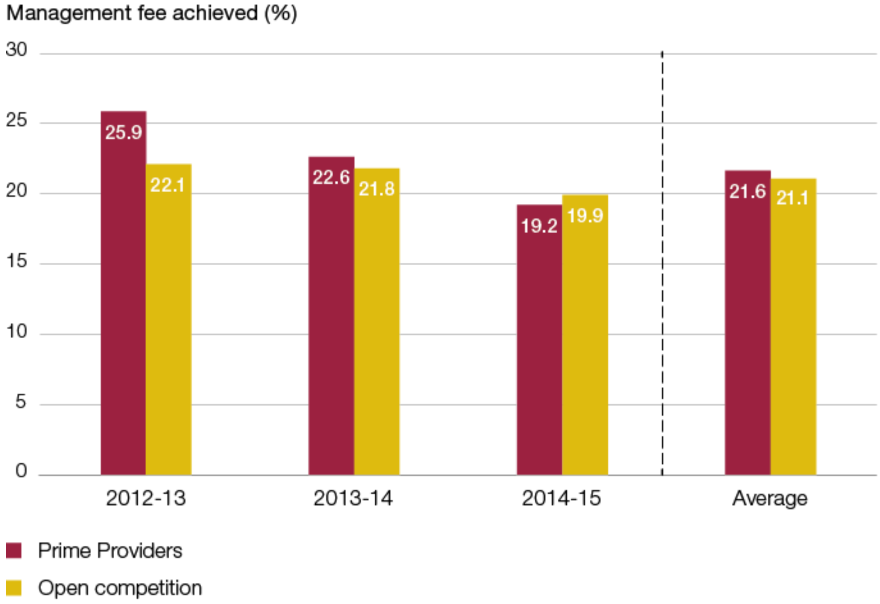
53 We verified that Capita was correctly calculating its charges to departments by reviewing a random sample of 60 events in our examination of open competition (see paragraphs 32 to 38 above). Our analysis found that the overall management fee that Capita charged to departments was in accordance with the contract rates and later negotiations with CSL. The average management fee that Capita received over all courses, including those with fixed prices,[8] to January 2015 is 21.6% for Prime Providers and 21.1% for open competition (**Figure 6**).

[8] The actual management fee may vary from planned because of unexpected costs or, for open courses, because attendance is greater or less than the 75% assumed in setting course charges. Excess management fees are monitored by CSL and used to fund loss-making courses or other services.

Figure 6

Management fees that Capita charged, 2012-13 to 2014-15

Average management fees have reduced, as a proportion of the course fees paid by departments, both for training provided by Prime Providers and other suppliers selected by open competition



Notes

1 The management fee includes a payment of 1% of training suppliers costs paid to Crown Commercial Services for managing the Contract and is before volume discounts paid to Civil Service Learning.

2 The Prime Providers figures include training won by them in open competition.

Source: National Audit Office analysis of Capita data

Findings on the savings methodology

Reported savings from the contract

54 Some correspondents asked for the origins of the claim that the contract had saved £60 million in its first two years. This number was used in a presentation by CSL and Capita at public speaking events from around June 2014. This was based on a savings estimate by the Crown Commercial Service (CCS), which let the contract on behalf of CSL, against a 2009-10 baseline. This estimate was later revised and updated. The current reported savings on the contract up to January 2015, used within Cabinet Office, are £89 million (**Figure 7**).

Figure 7

Reported savings from the CSL Contract analysed by year

Financial year	Amount (£m)
2012-13	17
2013-14	37
April 2014 to January 2015	35
Total	**89**

Note

1 The figure for 2014-15 is up to January 2015 and does not include the last two months of the financial year.

Source: Crown Commercial Service analysis of savings

55 The £89 million figure is calculated by the Cabinet Office, but is partly based on information that Capita provided, and is formed of four parts (**Figure 8**). Of this, 87% is from calculating the difference in the cost of a Prime Provider's core curriculum course under the contract with the cost of an equivalent course at the National School of Government at Sunningdale in 2009-10. This data suggests that the average cost for the 66 benchmark courses at the National School of Government was £1,055, while the average cost of the comparable CSL courses is £314.

56 A further 10% of the estimated saving is from putting bespoke training out to competition. Cabinet Office estimates this using the difference between the price of each open competition course awarded and the average price of the other tendered bids. This is sometimes negative, where the tender is awarded for quality not price.

Figure 8

Total savings to date analysed by the methodology used

Title of benefits methodology	Brief description	Savings to date (£m)
1 Common curriculum	Cost of CSL courses against comparable courses at the National School of Government	77
2 Open competition	Savings from procuring specialist courses through competition	9
3 Reduction in management fee rate at contract extension	Savings from reducing the fee to 18% from April 2014 (compared with 22.2% in the original contract)	1
4 One-off savings	Agreed one-off reductions in management fee	2
Total		**89**

Notes

1 Excludes discounts paid to CSL to March 2014 of £1 million.

2 Staff reductions in departments are not included in these benefits.

Source: Capita and Crown Commercial Service

57 In addition to the £89 million savings reported on the cost of training, there are other possible savings from reducing the number of HR staff in civil service L&D roles. CSL has estimated that around £70 million of annual savings are achieved from reducing HR staff across the civil service by 1,707 posts since 2008-09. However, it is unclear whether this is solely due to the CSL contract or other initiatives. Some of these tasks are now being conducted by the 100 staff Capita employs and the 66 staff that Civil Service Learning employs.

58 We have not audited these numbers or verified the savings. However, we have reviewed the Cabinet Office methodology used to derive the £89 million of savings. Of the £89 million, £77 million is from the common curriculum benefits methodology and is directly attributable to the centralisation of the training procurement. The other three benefits methodologies are savings but not directly attributable to centralisation. We comment on the savings methodologies as follows:

Common curriculum

- The National School of Government benchmarks are only broadly comparable to the current training provided. We compared the aims and content of 10 courses available through the CSL contract on which savings were being reported with the comparable National School of Government courses from the 2009-10 brochure. Of the sampled courses, 9 of the 10 were broadly comparable with the benchmark in terms of content and learning aims but in one case the current course no longer matched the aims and content of the original course. However it is not possible to verify that the courses were of the same or better quality.

- In 2014, for the first time, CCS factored the compound inflation uplift into the National School of Government 2009-10 brochure prices to estimate what the course would cost at current prices. We examined three months saving calculations and found the uplift was incorrectly calculated, overstating the actual saving for 2014-15. CCS told us that this error is being corrected to ensure savings for this financial year are not overstated.

Open competition

- There is no 2009-10 baseline available to assess whether using the CSL Gateway has reduced the cost of courses procured through open competition. Capita told us that although it routinely requests data on previous courses run by departments, these are rarely provided. Instead, Capita compares the price of the winning tender for each procured course with the average of the unsuccessful bids.

Reduced management fee rate

- Cabinet Office includes the impact of the management fee reduction from 22% to 18% from April 2014 in its reported savings. Although this is not calculated as a saving against the 2009-10 baseline, it makes sense to include it as the management fee is for activities that were previously undertaken by civil service L&D staff and the reduction in their headcount has not been included.

One-off savings

- Cabinet Office includes one-off reductions in the management fee for specific new courses in its reported savings. These are not savings against a 2009-10 baseline as the reductions are for courses where Capita has undertaken limited work to arrange the course and thus is not contributing to the reduction in civil service L&D staff.

Whether departments could end up paying more for the training than they have in the past

59 Some correspondents said that departments are paying more now for courses than they had in the past. Under the CSL arrangements, departments are likely to pay more for courses where they have kept the same provider for the course, but that provider is now routed through the CSL contract. The Capita management fee is charged for all courses, even where the course provider is unchanged. In some cases Capita seeks to negotiate reduced prices from the supplier. However, it does not do so in every case and no records are kept of the outcome of such negotiations.

60 For the contract to be delivering savings it must make a saving to the exchequer as a whole, rather than to every department using the contract, or on every course. This means the management fee on the open competition courses must be outweighed by a combination of:

- greater competitive pressure, forcing price reductions or better quality across all the open competition training courses; and
- a lower administration cost across the civil service, including reducing head count.

61 The problems with attributing the savings to the centralisation of the training means that it cannot be demonstrated that Capita are procuring *open competition courses* on an individual basis cheaper than departments would have done so. However, not withstanding some weaknesses in the savings methodology, the Cabinet Office are in a reasonable position to claim that its overall strategy of centralising training is delivering savings.

Appendix One

Scope of our work

1 We reviewed five specific concerns, drawing on various evidence sources:

- We **interviewed** Capita, CSL and CCS staff to answer the five questions in paragraphs 3 and 4.
- We requested and reviewed CSL and Capita documents including: the Civil Service Learning contract and Capita's standard contract with subcontractors; the OJEU contract notice; Capita's monthly management information reports; and the CSL procurement strategy.
- We **analysed** Capita data on paying subcontractor invoices and its internal charges for training that Capita staff provided.
- We reviewed a sample of 30 invoices paid in November 2014 to analyse payment performance on valid invoices.
- We visited Capita's offices to walk through the open competition, invoice payment and the management fee calculation procedures.
- We examined the changes to standard contracts and three recent contracts to see if the anti-compete clauses had been removed.
- We examined 60 events selected from 6 monthly management information reports to assess whether Capita has:
  - put at least 51% of training to open competition; and
  - applied the correct management fee to course costs and that departments were billed correctly.
- We examined Capita's savings spreadsheet and CCS's savings figures. We also assessed the four savings methodologies for robustness.

2 We did not review other Capita training contracts or audit Capita plc's financial information systems.

National Audit Office

Design and Production by NAO Communications
DP Ref: 10669-001