Individual Learning Accounts

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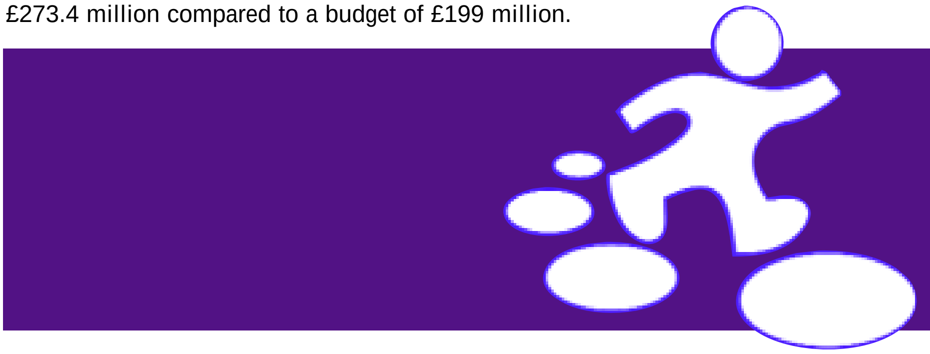
executive summary

In this section

Introduction

1 The Government introduced Individual Learning Accounts (ILAs) in England in September 2000, to widen participation in learning and to help overcome financial barriers to learning faced by individuals. Although anyone[1] could open an account, the scheme was targeted at bringing back into learning those people who had not done any for some time and those who lacked skills and qualifications. In October 2001 the Secretary of State for Education and Skills announced withdrawal of the scheme from 7 December 2001 because: demand for accounts was much higher than expected; there were concerns about how the scheme was being promoted and sold; some learning providers[2] were abusing the system, offering low value, and poor quality learning; and there were increasing numbers of complaints from learners.

2 The scheme was far more popular than expected. The Government's commitment to a million account holders undertaking learning over two years was achieved in September 2001, six months early. Two months later, take-up had increased by 50 per cent. Total expenditure (as at June 2002) amounted to £273.4 million compared to a budget of £199 million.



3 In line with police advice, the Secretary of State closed the scheme with immediate effect on 23 November 2001, following allegations that a large number of account numbers had been extracted from the system and offered for sale. At the time the Department for Education and Skills[3] (the Department) estimated that if the scheme was not closed immediately, the value of fraudulent claims could run into tens of millions.

4 We examined the design, implementation and closure of the scheme in view of the substantial sums of public money at risk and concerns expressed by the Committee of Public Accounts, learners and providers about the closure. Our methodology is summarised in Appendix 1. Our report contains wider lessons for the design and implementation of new policies in the future.

1 Aged 19 and over who satisfied residency requirements set out in the Regulations.

2 Any person, firm, company or other organisation offering training, teaching or other learning opportunities registered by the ILA Centre.

3 The Department for Education and Skills took over education responsibilities from the Department for Education and Employment in June 2001.

Overall conclusions

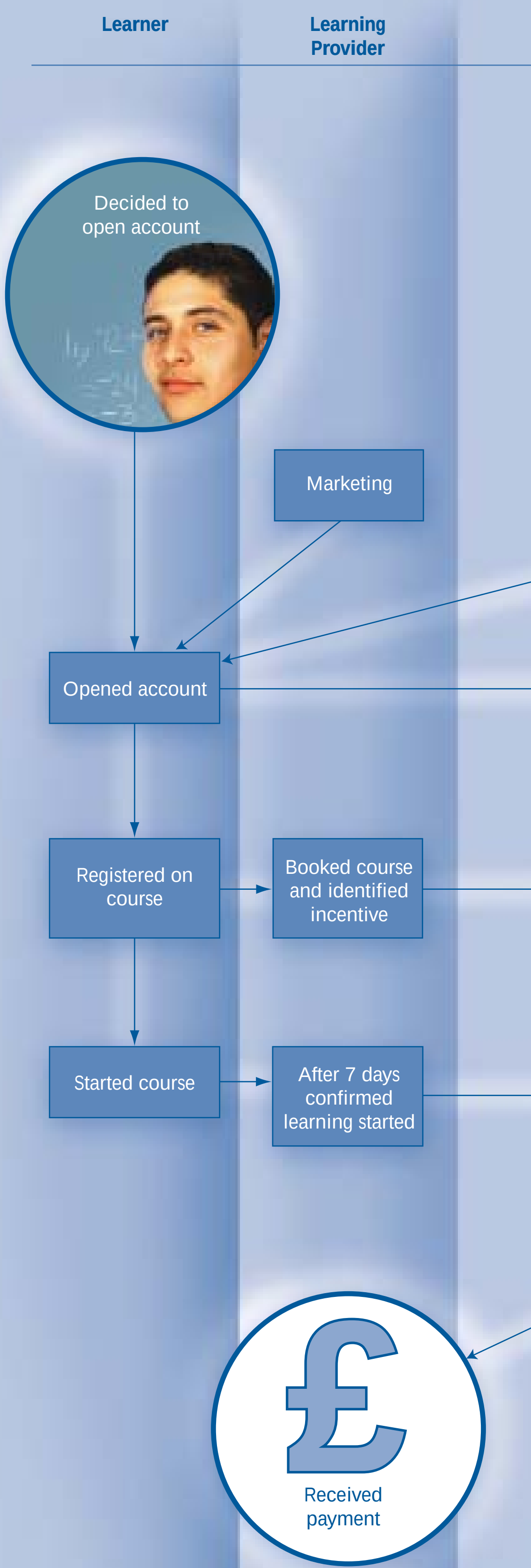
5 Individual Learning Accounts represented innovative policy-making, which succeeded in attracting considerable new interest in learning. The emphasis on information technology (IT) in the programme also provided a step towards increased "IT literacy" amongst the population, enabling future electronic delivery of services. The scheme had to be withdrawn not because of its innovative nature but because of problems arising from a variety of factors including:

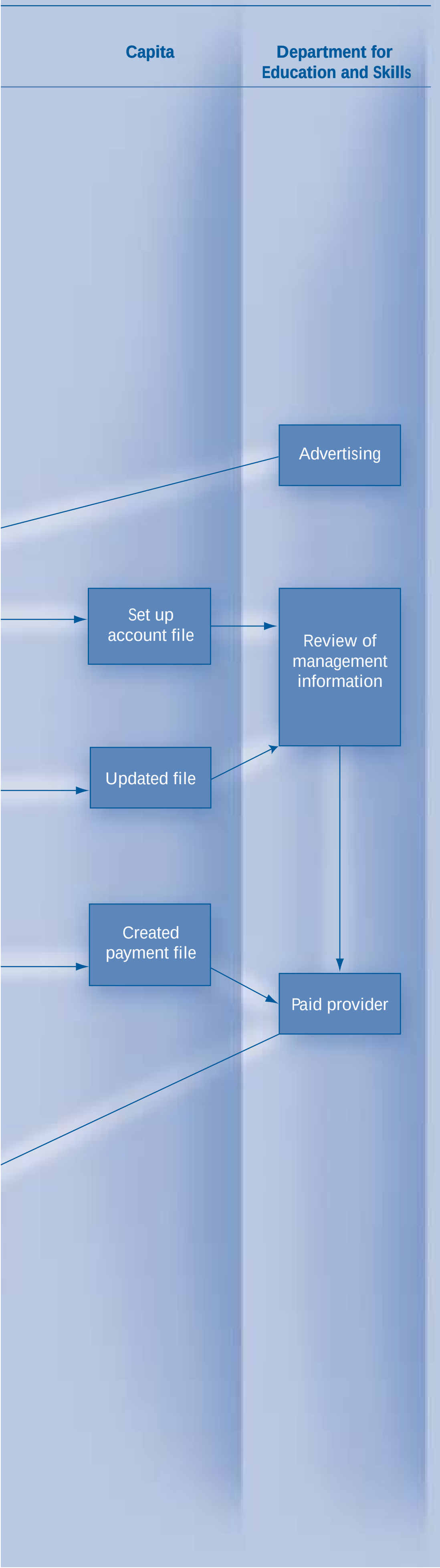
- **pressure to implement the scheme quickly and inadequate planning** The scheme was implemented in response to a manifesto commitment over three years earlier. Two years spent on developing proposals which proved unpopular with the public and potential providers meant that the timetable for drawing up the specification, tendering and piloting the national scheme was too tight. No business model was drawn up evaluating costs and benefits and security requirements were not specified in the contract;
- **risks in the design and implementation of the scheme which were not actively managed** The value of individual transactions was low, and initially the Department considered that the risks of fraud were low. In deciding whether or not to accredit providers, the Department should have taken account of its recent experience with distance learning (franchised provision) in the further education sector. The Department did not respond fully to risks identified by consultants in the Project Health Check, nor to bidders' concerns about the very tight timetable for getting the scheme set up and running;
- **the relationship with Capita** The Department regarded its relationship with Capita as a partnership, the risks in effect always remained with the Department. The relationship bore little resemblance to a partnership - Capita was not involved in the project board and the Department left Capita to implement the system. In adopting a public-private partnership approach, the Department sought to comply with best practice at the time. For the successor scheme, it is seeking to adopt appropriate aspects of Office of Government Commerce guidance on ICT[4] procurement;
- **inadequate monitoring** The Department should have monitored more closely the information supplied by Capita and the escalating demand for accounts, especially given the innovative nature of the scheme and increasing numbers of complaints. Capita was not required to undertake any spot checks on eligibility of learning nor any basic validity checks to ensure bona fides of account holders. Lack of exception reporting meant that the Department was unaware that 13 providers had registered over 10,000 accounts and 20 had received payments in excess of £1.5million;

6 The Department took prompt action to close the scheme when it ascertained the scale of potential fraud. Almost all providers through whom learning was started prior to closure of the scheme have now been paid. The Department is checking claims from over 560 providers (as at 1 August 2002) and is investigating fully a relatively low percentage of providers with which it has concerns - some 133 providers who have claimed £67 million. It is likely to be up to two years before this work is completed and the full scale of fraud is known.

4 *Information and communication technology.*

How individual learning accounts worked





Background

7 The Department set up Individual Learning Accounts in England[5] in response to the Government's 1997 Manifesto pledge to encourage people to invest in and take more responsibility for their learning throughout their working lives. Individual Learning Accounts were to be available to everyone, including the self-employed, and were to be used to pay for learning of the learner's choice. At the same time, the Government was keen to target people with particular learning or skill needs; for example, young people without qualifications and in low-skill jobs, employees in small firms and those seeking to return to work.

8 In 1997, the Department sought the involvement of financial institutions in setting up accounts into which individuals could bank and save money for learning. After two years of research and testing of different forms of accounts, the Department concluded that the savings to learn concept was unpopular with individuals, providers and financial institutions. Instead, the Government adopted a system of subsidies, whilst retaining the name "individual learning accounts". In practice they were "virtual accounts" for recording the discounts claimed by each individual, and were subject to an upper limit on the total discounts claimable. The scheme was to be funded from £127.5 million[6] released from the wind-down of the Training and Enterprise Councils (TECs) together with additional funding of £23 million (subsequently increased to £40 million) and £46 million in 2000-01 and 2001-02 respectively.

9 To encourage innovation, the Department adopted a public-private partnership approach for the design and implementation of the scheme. But, by January 2000, after seeking competitive tenders, the Department was left with only one bidder. In June 2000 the Department signed a contract with Capita to develop and operate the scheme. Capita was to operate a call centre for enquiries about accounts as well as an administrative centre for registering learners and providers, processing new accounts, maintaining records of learning started and notifying the Department of amounts owing to providers.

10 Providers were free to market their services to prospective customers. Learners could also find out about learning opportunities from other sources such as libraries, , and UKonline centres[7]. Anyone wishing to open an account had to apply to the Individual Learning Account Centre (the Centre) but had to register direct with the provider when they had identified the learning they wished to undertake. When registering for learning, the account holder then gave his unique account number to the provider and was required to pay the required minimum contribution to the costs. Learners could register for more than one learning episode[8] but had to pay the minimum contribution for each one.

11 Learners could book their learning episodes up to six months in advance. Providers were responsible for entering the proposed learning on the ILA database and the amount of the learner personal contribution, but could not make a claim for the learning episode until they were able to confirm that the learner had started the learning. Capita compiled weekly and monthly payment files. The Department was responsible for authorising and making payments.

5 7 November 2000. Subsequently the department's contract with Capita was amended in recognition of the signing of related contracts between Capita and Scottish Ministers and the Northern Ireland Department for Employment and Learning.

6 The total UK figure was £150 million, of which the England share was £127.5 million. In practice the England share of the proceeds was £112.6 million, of which some £29 million is expected to be received in 2002-03 or 2003-04 as the TECs' accounts are wound up.

7 See Figure 2 overleaf.

8 Course, module or unit of learning.

12 The balance between the individual's and the Government's contributions depended upon the learning to be undertaken. There were three incentive schemes (**Figure 1** and Appendix 4).

1 **Financial incentive schemes available under the national ILA scheme**

Three financial incentives were available from September 2000:

- an initial incentive of £150 towards the cost of eligible learning for the first million account users, with a small contribution of at least £25 from the account holder;
- a discount of 20 per cent on the cost of a broad range of learning capped at £100[9]; and
- a discount of 80 per cent on the cost of a limited list of basic IT and mathematics courses[10], limited to a total of £200 discount per account from October 2000.

NOTE

Different arrangements applied to those transferring from individual learning accounts set up under the Training and Enterprise Councils.

Source: Department for Education and Skills

13 The initiative was one of several designed to encourage lifelong learning **(Figure 2)**.

2 **Initiatives to encourage lifelong learning**

	2000-01 expenditure	Description of scheme
Ufl	£66.0 million	Using new technologies to bring new opportunities to adults to enhance their skills and education
learndirect	£12.0 million	National learning advice service providing information and advice on learning opportunities
Career Development Loans	£14.2 million	Deferred repayment bank loans with low interest rates to help individuals to pay for vocational education or training
UKonline centres	£206.0 million	Centres contributing to the Prime Minister's pledge to ensure that 'everyone who wants it has access to the Internet by 2005'. They offer an introduction to the Internet and e-mail, with learner support to help new users
Union Learning Fund	£8.1 million plus £1million for basic skills	Promotes activity by trade unions to increase the take up of learning in the workplace

Source: Department for Education and Skills

14 The Government wanted to encourage more flexible delivery of learning through a wider range of providers and in particular, those operating in smaller niche markets and those attracting new, non-traditional learners. It envisaged that greater efficiency would result - inefficient or ineffective providers would make room for new ones. The Department required providers to be registered with the ILA Centre and to produce evidence of public liability insurance, but it did not intend registration to be a guarantee of quality of provision. The Department decided against requiring providers to be subject to quality assurance. By November 2001, there were 8,910 registered ILA learning providers, some of which were new ventures, with no previous involvement in publicly funded education or training. There was no contractual relationship between the Department or Capita and the providers.

9 *Appendix 4*
10 *Appendix 4*

15 The Department was responsible for formulating the policy, devising the framework for its implementation and overall design and monitoring of the scheme. The Department established a Project Board to manage the policy, the design and implementation, and oversee developments. It sought advice and project management assistance from Oakleigh Consulting and from KPMG on designing and implementing the policy.

16 The Department's commitment was for a million people undertaking learning over two years. The final budget for England for the period was £199 million[11]. Actual expenditure, as at June 2002, amounted to £273.4 million.

Main findings

17 We examined three issues:

a how far individual learning accounts met the policy objectives;

b how well the Department managed risks in design and implementation of the scheme;

c how well the Department handled the closure and wind-down of the scheme.

a) How far Individual Learning Accounts met the policy objectives (Part 1)

18 The Department had strategic aims but, beyond commitment to one million account holders, the objectives were operational and were more about how the scheme would work rather than what it should achieve. No precise objectives were set for the overriding desired outcome of getting more people into learning (paragraph 1.2).

19 Some 2.6 million accounts were opened, but only 58 per cent had been used by the time the scheme closed. Some had been emptied by unscrupulous providers, but until investigations by the police and the Department's Special Investigations and Compliance Units are complete, the Department is unable to determine how many of them there are affected. The Department will have clearer view when it gets the results[12] of its planned survey of users registered with providers with whom it has concerns (paragraph 1.5).

20 Although the Government made the scheme universal[13], the Department targeted its marketing to specific groups **(Figure 3 overleaf)**. Quantified targets were not set for each group, but were drawn up for the pilot schemes which were established subsequently to attract specific groups of people. The Small Firms Learning Account pilot had targets for the number of firms and the number of employees involved. Each group participating in the Community Group pilots had to identify their own targets in advance. Similarly, individual Union Learning Fund projects also set their own targets.

11 Includes £112.6 million from wind-down of the TECs - see Footnote 5 on page 3.

12 The Compliance Unit sample size is about 30,000 and the Special Investigation Unit sample is 20,000. Analysis of results of both is expected by mid-November 2002.

13 Open to everyone aged 19 or over, meeting the UK residency requirements as set out in the ILA Regulations, SI 2000 No. 2146 Individual Learning Accounts (England) Regulations 2000.

3 Target groups

- young people between 19 and 30 with low qualifications;
- self-employed people;
- women returners to work;
- non-professional school staff; and,
- ethnic minorities.

Source: Department for Education and Skills

21 Comparison of target and actual beneficiaries is complicated by weaknesses in management information. Our analysis of available data and the Department's research showed:

- the scheme encouraged people to undertake learning. Over half of the learning booked for which data is available was entry level skills[14] or Level 1 qualifications[15] (paragraph 1.7);
- the scheme successfully stimulated information technology learning activity - about 65 per cent was ICT[16] (paragraph 1.8);
- a third of learners were aged between 19 and 30, and over a half were aged between 31 and 50. "Low qualifications" were never defined and data on highest qualifications and other personal data were recorded and collated where learners (60 per cent) had chosen to complete the relevant voluntary field on the form. Research[17] evidence suggests that nine per cent of account users were young people with no qualifications, but the majority of learners had level 2 qualifications (GCSEs at A*-C or equivalent NVQs) and a quarter were graduates[18] (paragraph 1.11-1.12);
- the Department sought to collect data from learners to enable it to assess the extent to which people from other target groups benefited from the scheme. However the data set was incomplete as some learners chose not to complete some voluntary fields on the application form. Research[19] evidence suggests that some of the target groups have benefited (paragraph 1.13-1.16);
- The Department had planned further initiatives on targeted groups starting in summer/autumn 2001, but these initiatives were put on hold because they might have added a lot of extra expenditure at a time when it became clear that the budget for the scheme would be exceeded. The Department also cancelled a planned initiative to promote ILAs to employers with a view to expanding ILAs to more learners (paragraph 1.17-1.18).

14 Numeracy and Information and Communication Technology.
15 Foundation skills.
16 Information and Communications Technology.
17 York Consulting.
18 Capita survey of 600 learners, February to May 2002.
19 York Consulting.

b) How well the Department managed risks in design and implementation (Part 2)

i) Policy making

22 Our analysis of the scheme design **(Report Card 1)** compares the Department's actions against current good practice guidance, rather than that available at the time. We take account of the key factors, as identified in our recent reports, that government organisations should consider to prevent policy not delivering its objectives. Relevant extracts from our reports are included in Appendix 2. Our overall conclusion was that the Department had introduced innovative ideas but that in making decisions on whether to subject providers to quality assurance, the Department should have heeded recent experience of distance learning (franchised provision) and its susceptibility to fraud.

Report Card 1: The Department's performance measured against characteristics of modern policy-making

Good practice[20]	Comments
Departments should **learn lessons** - they should draw on existing knowledge and experience, taking account of internal and external views	The Department piloted options through the Training and Enterprise Councils (TECs) and developed the £150 incentive to help stimulate demand. The Department recognised the scope for fraud but initially considered it low risk. In deciding whether or not providers should be subject to any form of quality assurance, the Department should have taken account of its experience with overclaims in respect of distance learning (franchised provision) at Halton College (paragraph 2.3 to 2.9). The Department appears not to have consulted other government departments on how to protect its systems from fraud (paragraph 2.10).
Policies should be **joined-up** - relationships to other policies should be considered and managed	Individual Learning Accounts was one of a number of initiatives to promote lifelong learning (paragraph 13). The Department sought to integrate the scheme with *learndirect*, but the information sets held within the databases were not compatible (paragraph 2.31-2.32).
Policies should be **innovative and creative**, but identification and management of risks should be included within the design	The Department generated very original ideas about client accounts and expanding the provider base (paragraphs 2.3-2.6). The Department sought risk assessment advice from KPMG and commissioned a project health check from Oakleigh Consulting, only some of which were addressed.
Policies should be **forward looking** - options should be developed and assessed	The Department had strategic aims but beyond a commitment to 1 million account holders by April 2002, operational objectives were more about how the scheme would work, rather than what it would achieve (paragraph 1.2). Options for national scheme were piloted in the TECs. The Department had commissioned KPMG to do some modelling but did not prepare detailed business process models or financial plans (paragraph 2.16).
Policies should be **outward-looking** - it should be clear what the policy is trying to achieve	The Department prepared a rationale and objectives statement in the summer of 2000 setting out the aims of the scheme. It sought to encourage more and a wider range of types of training providers for a wide range of clients (paragraphs 2.5 to 2.6).
Policies should **use evidence** - through understanding the needs and characteristic of the client group and analysing the likely behaviour of the client group	The Department commissioned studies during development stage to assess learner attitudes, and made limited use of evidence from pilot schemes to inform policy design (paragraphs 2.3 to 2.6).
Policies should be **inclusive** - the policy should have been tested prior to implementation to see how it would work in practice	Options for a national scheme were tested through pilots in the TECs, but there were significant differences between the pilots and the national scheme as implemented (paragraph 2.4).
Policies should be **evaluated and reviewed** - there should be early warning indicators to help identify where progress with implementation is not as intended	The Department's rationale and objectives statement included proposals for evaluation of the scheme, including early satisfaction surveys, a follow-up study of a cohort of account holders and analytical study of impacts (paragraph 2.5). The Department capped the 80 per cent discount scheme as soon as it was aware of problems (paragraph 2.41). The Department monitored the number of accounts opened, but it was not clear until Summer 2001 that fraud and abuse was fuelling demand for accounts. The number of complaints was relatively low compared to the number of open and active accounts, but earlier and more thorough analysis of them could have alerted the Department to emerging problems (paragraphs 2.46-2.47). The Department acted swiftly to close the scheme when it became aware of the potential level of fraud (paragraph 2.42-2.50 and Part 3).

20 *Extracted from recent National Audit Office reports*

ii) Risk management

23 On effective risk management, including risks in implementing information technology projects **(Report Card 2)**, we refer to our findings on other procurement reports (Appendix 2). Our overall conclusion was that poor risk management and an unclear relationship with Capita contributed to the closure of an innovative project due to allegations of potentially serious fraud and abuse.

iii) Project management and performance

24 Our overall conclusion was that the system was implemented within a challenging timescale, but that pressure to do so resulted in corners being cut **(Report card 3)**.

Report Card 2: The Department's performance measured against good practice on risk management

Good practice	Comments
Departments should prepare a **realistic business case:** ■ wide range of business volumes planned for ■ take account of user's views ■ not too complex ■ robust forecasts	Users' views had been sought before implementation, and KPMG carried out a modelling exercise. Capita also drew up business plans which included the possibility of higher business volumes. The Department appeared to take little notice of them, because it expected to have difficulty attracting learners (paragraphs 2.16 to 2.17).
Department should consider **risk sharing with partners:** ■ clear partitioning of risks ■ top management of both organisations involved in management	The Department regarded Capita as a partner but in common with practice at the time, did not involve Capita staff in the Project Board. To do so would have avoided many problems in this case (paragraph 2.23). We agree with the Education and Skills Select Committee that despite the outsourcing of service delivery, the form of the contract meant that the risks in effect always remained with the Department (paragraph 2.25).
Departments need to balance **risk management and innovation:** ■ formal risk analysis ■ risk monitoring ■ strategy for fraud	The design of the project was not informed by a formal risk analysis, although a risk register was set up and maintained prior to the scheme starting. There was no counter-fraud strategy (paragraph 2.15). Pre-launch, many risks involved in running the scheme were evaluated as low. Insufficient action was taken on emerging issues (paragraphs 2.14- 2.15).
Departments need to do **contingency planning:** ■ assuring for reasonable service standards and costs ■ adequate capacity for possible outcomes ■ full information to the public	The learning accounts were made available quickly. The Department decided against implementing quality assurance systems, but expected market forces to ensure that inefficient or ineffective providers would make room for new ones (paragraph 14). Although providers considered the sudden closure of the scheme an about turn, it was just a fortnight earlier than planned and the Department always intended implementing a successor (paragraphs 3.5 & 3.6-3.9). The Department acted swiftly to safeguard public funds as soon as it realised the potential for fraud if the scheme was not closed.
Departments should **involve senior management:** ■ clear senior officer ■ top management involved and committed	After March 2000, there was a clearly identified Senior Responsible Owner in charge of the whole project. Senior management had a close interest in the success of the project (paragraph 2.11).
Departments should ensure that the project is **adequately staffed:** ■ appropriate number of staff ■ suitably qualified staff	The Department's project team did not have sufficient resources with appropriate skills for managing and implementing such a large project. KPMG and Oakleigh Consulting both raised concerns about the adequacy of resourcing particularly in relation to contract management during the lifetime of the scheme. The Department brought in more resources as the need for investigative resources on provider compliance became apparent (paragraph 2.13).

Report Card 3: The Department's performance on project management and monitoring

Good practice	Comments
Departments should use **rigorous tendering procedures** ■ Compliance with requirement to advertise the project in the Official Journal of the European Communities ■ Evaluation of competing bids	Appropriate European Community tendering procedures were used following withdrawal of all but one bidder, the Department considered interim arrangements which might allow bidders longer to set up their systems, as well as alternatives to private sector delivery. The Department decided to proceed with a single bidder, and developed contingency measures should the bidder withdraw, fail to demonstrate good value for money or there was a delay in implementation. KPMG carried out a public sector comparator against which to assess reasonableness of Capita bid (paragraphs 2.18-2.22).
Departments should ensure that they have **specialist input as well as senior management commitment to information technology aspects of policy development, including security** ■ Development of specification ■ Evaluation of bids which should include detailed plans ■ Ensure projects are not unreasonably large ■ Post-implementation review	The contract required Capita to comply with industry standards, but the Department did not specify clearly its information technology requirements, and should have employed information technology specialists who could have ensured that the system met the Department's requirements (paragraphs 2.36-2.39). The Department did not to act on KPMG's recommendation that the robustness of information technology security arrangements should be fully tested (paragraph 2.37). The Department, KPMG and Capita underestimated the potential for abuse and the ramifications of it. There were no processes in place to identify suspect access patterns and some providers exploited the system to their financial advantage (paragraphs 2.49 and 3.8).
Departments should seek the opinion of an independent **risk scrutineer or commission an independent** project health check to report to senior management	The project health check resulted in some changes in project management, but other conclusions were not followed up (paragraphs 2.13).
Departments should introduce **good financial controls** ■ Early advice from Internal Audit on financial controls ■ Internal Audit inspection of new scheme to confirm that financial controls are working properly	Financial controls were inadequate, both at the Department and Capita and some which were planned were never implemented. Capita was not required under the contract to carry out any spot checks on eligibility of learning nor any basic validity checks to ensure the bona fides of account holders (paragraphs 2.33 and 2.35). Although Capita produced system checks for duplicates, it was not required to carry out any such checks, nor any data validation checks as outlined in its proposal (paragraph 2.27 and Figure 10). The Department's Internal Audit postponed its planned audit of the system from April to October 2001 because of the need to investigate complaints. Early systems audit - although it would not necessarily have identified malpractice - may have highlighted weaknesses in the controls before unscrupulous providers did (paragraphs 2.52-2.53).
Department should operate **good contract management**	The Department was under pressure to implement the scheme in autumn 2000. The Department employed commercial lawyers to draft a bespoke contract based on one developed by the former CCTA[21] but with consultants' input on call centre technology issues. Records of agreed variations to contract were inadequate (paragraph 2.29).
Departments should obtain **good management information** ■ timely reports ■ exception reports	Capita regularly provided the Department with a range of management information on service provision (paragraph 2.51). The Department did not have the resources to study those reports. The lack of exception reports meant the Department was unaware of very large payments to some providers (20 providers had received £1.5 million) (paragraphs 2.50-2.51).
Departments should **respond swiftly to emerging problems**	The scheme was more popular than expected. The Department acted quickly to impose cap on 80 per cent discount scheme (in first 6 weeks). The Department did not act to ease demand until realised budget would be at least £20 million overspent. Overspend exacerbated by decision to allow providers to complete bulk application forms on learners' behalf (paragraphs 2.41-44).
Departments should **monitor complaints** ■ clear responsibility for handling ■ analysis for common themes ■ adequate resources	Capita had responsibility for receiving and resolving complaints, except those about non-compliance with the programme rules. Capita maintained data on numbers of complaints but the nature of them was not analysed until May 2001. (The number received was less than one per cent of all accounts opened) (paragraphs 2.45-2.46).

21 *Central Computer and Telecommunications Agency*

c) How well the Department handled the withdrawal, closure and wind-down of the scheme (Part 3)

25 Following advice from the police, the Department shut down the scheme with immediate effect on the 23rd of November 2001 due to allegations of potentially serious fraud and abuse. Registered learning providers had used their access to the ILA database to obtain details of accounts for which they were not authorised. To protect public funds, the Department froze all payments to providers until validation arrangements could be put in place. The decision meant that some £15 million was frozen temporarily as the IT system was shut down. Some providers told us, and the Education and Skills Select Committee, that this left them very short of funds.

26 The Department resumed some payments to providers on 21 December 2001, and some 95 per cent of providers' claims had been met by June 2002. As at 1 August 2002, over 560 learning providers are being investigated by the Department's Compliance Unit. A further 133 cases are, or have been, examined by the Special Investigations Unit. Some 99 have been transferred to the police, and one has resulted in successful prosecution. Due to the extent of the scheme and the volume of the complaints/police investigations it could be two years before the level of fraud or impropriety is fully known (paragraph 3.15).

27 The Department is committed to introducing a replacement ILA scheme as soon as possible. The intention is to make the scheme equally attractive to potential learners but with better expenditure controls and less potential for abuse. The Department has agreed in principle, to work with Capita in developing arrangements for a successor scheme. The decision on whether to work with Capita is however subject to satisfactory progress and the outcome of negotiations with them. The Department will not finalise contractual terms with the partner, until it is satisfied that the risks involved in operating the new scheme have been minimised. The Department's conclusions so far on the lessons that need to be taken into account in developing the new one include:

- the system needs stronger quality assurance mechanisms to prevent unscrupulous providers benefiting from the scheme;
- the Department needs better intelligence on unscrupulous providers;
- the Department should derive a full business model to test how abuse could occur;
- stronger IT security arrangements for a successor scheme;
- better management of public/private contracts is necessary for the successor programme.

28 For development of the successor scheme, the Department is following advice from the Office of Government Commerce (OGC), under which procurement projects are subject to review at key stages. The Department has designated the project as "high risk" based on the OGC assessment criteria and subject to external assessment. The first reviews (business modelling and procurement strategy) were underway in July 2002.

Recommendations

i) Departments wishing to implement innovative demand-led projects, for which there is very little or no relevant experience, should prepare detailed business process models and sensitivity analyses for a wide range of scenarios. They should also develop contingency plans in case the project does not proceed as expected, or expenditure is significantly higher or lower than budget;

ii) where they intend working with the private sector on a partnership basis, Departments should draw up an agreement of common purpose or "partnering agreement"[22] which:

- determines the aims, objectives and common goals of the relationship;
- identifies the benefits to both the department and the supplier;

iii) where all or almost all bidders drop out of competitive tendering for any innovative project, departments should revisit the design of the scheme and consider re-tendering having taken account of the concerns of bidders as well as any implications for delays to the timetable to accommodate a further tendering stage;

iv) in the absence of more than one bid, departments should prepare a "should cost model". in addition to a public sector comparator. This represents a better simulation of competition and the private sector approach;

v) departments should ensure that risk registers are comprehensive and take account of recent relevant experience. They should be actively managed and counter-measures considered and implemented where appropriate and departments should take action to address those risks, particularly those relating to fraud;

vi) where they are seeking to rely on information technology, departments should obtain detailed technical advice from IT specialists, both in the preparation of specifications and assessing the feasibility of tenderers' proposals and the intended security systems;

vii) departments should take an active role in contract management, recording fully any agreed changes or variations to the contract or its interpretation;

viii) departments should monitor carefully any innovative programmes to ensure that they are meeting their objectives as well as commissioning exception reports to highlight any unusual practices which might be indicative of fraud;

ix) Internal Audit should be involved at project design and implementation stage to ensure adequacy of the financial controls. Early review of new systems should be carried out to ensure that they are working as expected;

x) departments should review any current initiatives that rely on information technology to ensure that they have adequate security controls protecting them against vulnerability to fraud;

xi) the Department for Education and Skills should give priority to reviewing the provisions for distance learning or "e-learning", taking account of the inherent difficulties of verifying the existence of learners who do not attend classrooms and whether any learning activity has taken place.

22 *Best Practice on Managing Partnering Relationships guidance issued by the Office of Government Contracting.*