



House of Commons  
Committee of Public Accounts

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# Extending access to learning through technology: Ufi and the learndirect service

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Twenty–eighth Report of  
Session 2005–06

*Report, together with formal minutes and  
oral evidence*

*Ordered by The House of Commons  
to be printed 1 February 2006*

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## The Committee of Public Accounts

The Committee of Public Accounts is appointed by the House of Commons to examine “the accounts showing the appropriation of the sums granted by Parliament to meet the public expenditure, and of such other accounts laid before Parliament as the committee may think fit” (Standing Order No 148).

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Stephen Williams MP (*Liberal Democrat, Bristol West*)

The following was also a Member of the committee during the period of the enquiry:

Diana R Johnson MP (*Labour, Hull North*)

### Powers

Powers of the Committee of Public Accounts are set out in House of Commons Standing Orders, principally in SO No 148. These are available on the Internet via [www.parliament.uk](http://www.parliament.uk).

### Publications

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at <http://www.parliament.uk/pac>. A list of Reports of the Committee in the present Session is at the back of this volume.

### Committee staff

The current staff of the Committee is Nick Wright (Clerk), Christine Randall (Committee Assistant), Emma Sawyer (Committee Assistant), Ronnie Jefferson (Secretary), and Luke Robinson (Media Officer).

### Contacts

All correspondence should be addressed to the Clerk, Committee of Public Accounts, House of Commons, 7 Millbank, London SW1P 3JA. The telephone number for general enquiries is 020 7219 5708; the Committee’s email address is [pubaccom@parliament.uk](mailto:pubaccom@parliament.uk).

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## Summary

In 1998, the Department established Ufi Ltd to develop people's skills and work with employers to increase employees' capabilities. Ufi operates under a company structure and provides e-learning services through contractors under the brand 'learndirect'. Ufi and the learndirect service received a total of £930 million in further education funding up to the end of July 2005. Ufi's aims are to work with partners to boost individuals' employability and employees' productivity by:

- inspiring existing learners to develop their skills further;
- winning over new and reluctant learners; and
- transforming people's access to learning in everyday life and work.

Ufi has focused mainly on publicly funded provision and delivering services directly to individual learners through learndirect centres and its website. In contrast, employers' awareness of how learndirect can help their business is low. Though many of the small number of businesses who have used learndirect value the service, Ufi needs to develop more products that are suited for business use. It needs to extend its reach to employers by working with organisations, such as Sector Skills Councils and the Small Business Service, who can help make businesses more aware of the benefits of training their staff through learndirect.

Of the 1.7 million people taking over 4 million courses through learndirect by July 2005, two-thirds had not done any learning in the previous three years. Bringing these people back into learning presents a golden opportunity, but a low proportion of learners have progressed on to other learning, including taking up qualifications in literacy and numeracy and to level 2 (equivalent to 5 GCSEs A\*–C) which are priorities for the Department. Ufi and learndirect providers should help learners gain confidence in their ability to move on, in order to meet the challenging target to double the number of pre-level 2 learners undertaking level 2 courses by 2010. Ufi also needs to secure more reliable data on learner achievement.

Ufi has reduced its management and marketing costs but, at nearly 30% in 2004–05, they are still far too high. It is planning further reductions to release more funds to redeploy on services for learners. The Department and the Learning and Skills Council need to help Ufi to extract the full benefits from its products and innovative approaches to learning by adapting them for other education settings, such as schools and colleges. They should also continue to support innovation that is likely to lead to improvements, such as in access to good quality learning in rural areas and among disadvantaged groups.

On the basis of a Report<sup>1</sup> by the Comptroller and Auditor General, the Committee examined the Department, the Learning and Skills Council and Ufi on Ufi and the learndirect service in England.

<sup>1</sup> C&AG's Report, *Extending access to learning through technology: Ufi and the learndirect service* (HC 460, Session 2005–06)

## Conclusions and recommendations

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1. **In seven years Ufi has provided over 4 million courses to 1.7 million people up to July 2005, two-thirds of whom had not done any learning in the previous three years.** It now provides around 500,000 learners a year with an opportunity to improve their skills either at one of 2,400 learndirect centres, at work, or from their home computer.
2. **Around 60% of learners enrolling with learndirect in 2004–05 were low skilled learners (pre-level 2 qualified), compared with an adult learner average closer to 30%.** Relatively few have taken up adult level 2 and adult literacy and numeracy qualifications that are priorities for the Department. Ufi should identify and disseminate examples of how some learndirect centres are persuading and supporting low skilled people to take up and achieve these qualifications, for example by providing successful learners as mentors to people just starting to learn.
3. **Only 37% of small and medium-sized businesses know that learndirect is intended to support them and only 4% use it.** Ufi's rationale is to boost employability and productivity, but it has done limited work directly with employers. Ufi should develop a strategy for substantially increasing its direct work with employers within the next two years. The strategy should include:
  - a campaign to promote what learndirect can offer to companies, focusing on how training through learndirect has improved productivity and business results;
  - a programme to expand the level of activity by learndirect providers working predominantly with particular employers or in specific business sectors; and
  - a timetable for reviewing learndirect courses to identify ways in which they can be made more suitable for use by businesses.
4. **Some 40% of enterprises provide no skills training for their employees.** Lower levels of skills training compared to some other countries have an impact on the UK's competitiveness. Skills brokers, who provide advice on training opportunities and suitable providers, should work with learndirect providers to make e-learning more appealing to employers who are otherwise unlikely to provide skills training, for example by making the course content more relevant to the needs of small and medium-sized businesses.
5. **Access to learndirect is limited in some rural areas.** There is potential for online learning to improve access to learning in rural areas. Rural provision is an aspect of Ufi's business that is likely to benefit from further innovation, for example by providing learndirect services through online tutoring and within existing local amenities such as schools and community centres.
6. **Ufi is intended to be self funding but by July 2005 had recovered only £12 million commercial income, compared with £930 million received in education funding.** Ufi now has a challenging target to increase its commercial income to £40 million a

year. It should compile and publish a detailed business plan setting out how this is to be achieved.

7. **By 2004–05 Ufi was still spending nearly one third of funding for services to learners on management and marketing costs.** Ufi has reduced these costs over the past two years but its four-tier delivery chain carries the risk of duplication of activities and unproductive bureaucracy. Ufi should develop a simpler, more cost effective structure, for example by reducing the number of organisational tiers.
8. **Ufi achieved only 54% of its target of 0.45 million calls to its National Advice line in 2004–05 from people who are pre-level 2 qualified.** Ufi considers that the shortfall is largely due to the timing of advertising campaigns. But as the service attracts large numbers of calls from hard to reach learners, Ufi needs to determine with greater certainty the reason for the shortfall. If hard to reach learners are using the service less, it should review use of the learndirect website to make sure that it is providing a satisfactory alternative for these learners to obtain advice.
9. **Only around half of learners are recorded as meeting their training objectives.** It is unclear how far the problem is poor record keeping or learners actually not meeting their objectives. Ufi should require its contractors to keep accurate, relevant records of learner achievement.
10. **The full potential for other parts of the education sector to benefit from learndirect has yet to be realised.** Ufi should invite schools, colleges and other learning providers such as those working in prisons to review its products and help determine which are likely to have widest application. It should adapt its business beyond core areas, for example by developing training for offenders.
11. **Online learning poses particular risks to financial control.** learndirect centres are funded on the basis of people taking up courses online, but confirmation of learner existence is challenging where physical presence cannot be easily verified such as in a classroom. Ufi should publish the results of its current investigation of learner existence once it is completed, including a thorough assessment of the lessons learned from the investigation, which the Learning and Skills Council should disseminate to other training providers.

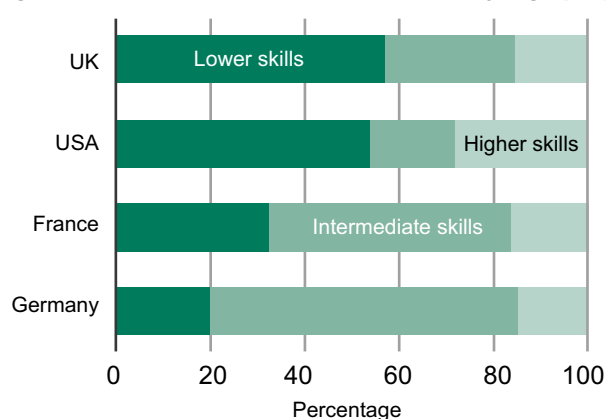




# 1 Providing businesses with the services they need to become more productive

1. In the UK, workforce productivity lags behind that of other major industrialised countries such as the United States, Germany and France. Our workforce has low levels of skills compared with workers from such countries (**Figure 1**) and, for example, almost 12% of the productivity gap between France and the UK has been shown to be due to differences in skills levels.<sup>2</sup>

**Figure 1: The UK's workforce has a relatively high proportion of lower skilled workers**



Source: *Britain's relative productivity performance: updates to 1999*, O'Mahoney and De Boer, 2002

#### NOTE

The higher skills level is equivalent to a university degree or above. The intermediate skills level is equivalent to vocational qualifications and the lower skills level is equivalent to general schooling.

2. Many UK employers educate and train their workforce to the standards of their best competitors. However, about 40% of enterprises do not provide any training at all. Reasons include staff time away from work and lack of spare resources to cover the time staff require to train; travel costs and time to get to the training; fear of trained staff being poached; and a lack of access to information on available training.<sup>3</sup>

3. Ufi has created one of the largest e-learning networks in the world, and has the largest number of students of any educational organisation outside China. Up to July 2005, 1.7 million learndirect learners undertook four million courses, and Ufi achieved brand recognition of 74% for learndirect. Small and medium-sized enterprises also recognise the brand, with awareness at 71%, but their awareness of what learndirect can offer to businesses, as opposed to individual learners, is much lower, at 37%. There are a number of ways Ufi and learndirect can reach small businesses, for example through a trusted adviser such as their accountant or the Small Business Service. It is important therefore that these

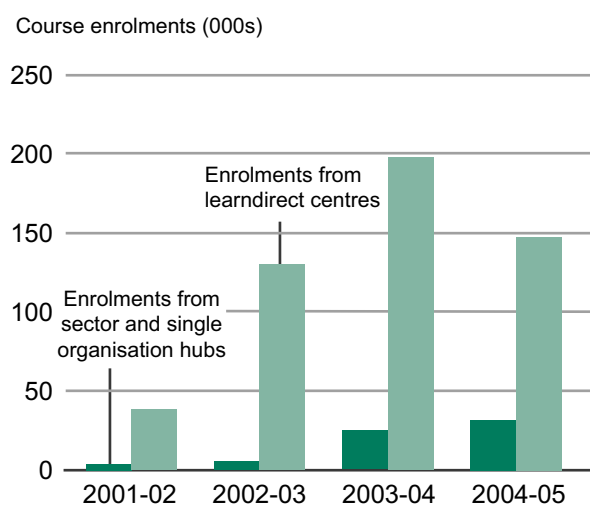
<sup>2</sup> C&AG's Report, para 1.3 and Figure 5

<sup>3</sup> *ibid*, para 1.5; Q 22; Learning and Skills Council, *National Employer Skills Surveys 2003 and 2004*

people also know about the learndirect service and what it can offer. Ufi acknowledges that it needs to do more to reach small and medium-sized enterprises.<sup>4</sup>

4. Ufi has built its reputation in the world of education and learndirect has the potential to provide a very useful service to business. Companies that have used the service are positive about the impact on their business. Since April 2002, however, approximately 180,000 small and medium-sized enterprises – only 4% – have used learndirect, with employees taking almost 600,000 courses. Figure 2 shows that most have done so through the learndirect centre network. Enrolments through learndirect providers who specialise in supporting a particular occupational sector or organisation (known as sector hubs and single organisation hubs respectively) are rising, but still contributed only a small amount of the take-up in 2004–05 (**Figure 2**). Just two operators have been responsible for over half of the courses delivered by single organisation and sector hubs: Assa Training and Learning, which covers the sectors for automotive components, automotive skills, science, engineering and manufacturing and visual communications; and a single organisation operator, the Army. Ufi also works closely with trade unions, and the Trades Union Congress is one of its hub operators.<sup>5</sup>

**Figure 2: There have been almost 600,000 enrolments from small and medium-sized enterprise employees**



Source: National Audit Office analysis of Ufi data

#### NOTE

The data represents a combination of data captured on the learndirect system, records stored by hubs on their own systems and a survey of the learning population. The percentage split between sector and single organisation hubs and learndirect centres is taken from data captured on the learndirect system and applied to all the data.

Data for the academic year 2004-05 may be adjusted following the audit work for Ufi for 2004-05.

4 C&AG's Report, para 3 and Figure 2; Qq 1, 3, 36

5 C&AG's Report, paras 3.20–3.23; Qq 2, 20, 41

5. Ufi's products have been designed more for the individual learner, rather than for an organisation or business needs, though in practice the majority of people who learn through learndirect are also in employment. Its portfolio has been confusing for businesses, with an overlap between what was free and publicly funded and what businesses had to pay for. In addition, the small to medium-sized enterprise market is itself fragmented, so Ufi has to research gaps in the supply of generic training and develop products best suited to meet shortfalls. Ufi is working with Sector Skills Councils to learn more about what businesses want and build more employer-led products around their needs.<sup>6</sup>

6. One of Ufi's original objectives was to generate substantial commercial income, but at present it remains dependent on public funding. Up to 31 July 2005, Ufi had generated only £12 million in commercial income, including the Connexions and NHSU help lines, which generated £6 million and £1.1 million respectively. Ufi plans to increase commercial income through:

- private sector activities;
- collection of fees from learndirect centres; and
- course sales to small and medium-sized enterprises.<sup>7</sup>

7. Under the original organisational structure, Ufi could not borrow commercially or generate reserves from its publicly funded activities to provide sufficient investment to develop commercial activities. Ufi established learndirect Solutions Ltd in August 2004 to provide services to large employers on a purely commercial basis, with no support from public funds and operating outside Ufi's public sector remit. Two people are employed on rolling contracts to manage the venture, overhead costs are kept very low, and there is no capital other than the infrastructure for the ICT, which the employer pays for when it is on their premises. Current business is small but profitable, with a turnover of £1 million.<sup>8</sup>

8. Ufi can charge for some services, but in practice most of Ufi's services for employees of small and medium-sized businesses have been almost entirely publicly funded, except for charges amounting to a current annual fee income of around £250,000. This compares with total expenditure by small and medium-sized enterprises on business training estimated at £3.8 billion a year, spent mainly with local training companies. Ufi has set an aspirational target of £40 million a year by 2010 for fee income from small and medium-sized businesses. The target is very challenging but Ufi considers it is credible based on the research into demand, and the Department believes Ufi will meet the target based on its business plan and the advice from the business people on Ufi's own board. From large employers, Ufi's revenue is continuing at around £1.0–£1.5 million, and larger employers need to be willing to pay the costs of developing the training, so that Ufi can focus on a company's specific training needs.<sup>9</sup>

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6 Qq 24, 31, 39

7 C&AG's Report, para 4.19; Qq 13, 43

8 C&AG's Report, para 4.20; Qq 37, 54–63

9 C&AG's Report, paras 3.24, 4.22; Qq 14, 37, 40, 42–53

## 2 Reaching potential learners and helping them to progress

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9. Ufi's approach to reaching large numbers of learners, many in high priority groups, has been based on the results of research into what was putting potential learners off. It has tried to reduce barriers by providing a relatively private form of learning for people who had previously felt embarrassed in the classroom, and by enabling people to learn in manageable 'chunks' that can be fitted in with their personal and work commitments. Of the total 1.7 million learners up to July 2005, around 16% were either unemployed or returning to work after time out of the workplace. learndirect has been successful in attracting learners from ethnic minorities: the percentage of ethnic minority learners is higher than the percentage in the population. It has attracted large numbers of 'reluctant learners': survey results indicate that almost two-thirds of learners had undertaken no learning in the last three years and a quarter would not have undertaken any learning without learndirect.<sup>10</sup>

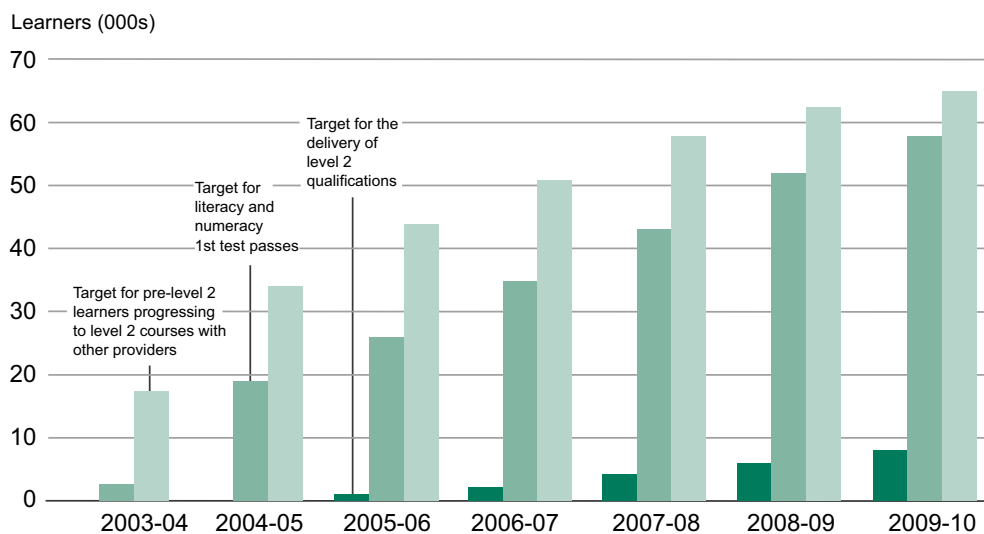
10. In 2004–05 around 60% of learners enrolling stated that they were pre-level 2 qualified (compared with around 30% for all adult learners). Relatively few have been taking up adult level 2 and adult literacy and numeracy qualifications that are priorities for the Department, and after the first three years, the Department asked learndirect to refocus on these areas and realign its business towards level 2 activity. Ufi plans to increase learndirect's contribution to the Department's literacy and numeracy target and help learners to progress to level 2 qualifications covering a wide range of subjects (**Figure 3**). It substantially exceeded its targets for enrolments by pre-level 2 qualified learners and literacy and numeracy learners in 2004–05, by 220 and 85% respectively. The Department considers that learndirect is now one of the best literacy and numeracy providers in the country. Some of the businesses that learndirect is working with have shown an interest in the literacy and numeracy diagnostic assessment and online support for their employees.<sup>11</sup>

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10 C&AG's Report, paras 3.11–3.12; Qq 15, 22

11 C&AG's Report, paras 3.11–12, 3.28 and Figures 21, 27; Qq 19, 21, 33, 35

**Figure 3: Ufi has set targets to increase its contribution towards level 2 qualifications and literacy and numeracy test passes**



Source: Ufi

11. Ufi is balancing its first priority of getting reluctant learners to take up learning who may have no aspirations to gain a qualification at level 2, with the need to move learners on to improve their skills by gaining a level 2 qualification. As shown in Figure 3, Ufi's plans to increase the number of pre-level 2 learners progressing to level 2 courses with other providers will involve doubling the currently low progression to 19% of pre-level 2 learners (65,000 learners a year by 2010). Ufi is also developing its own courses so that it can deliver 8,000 full level 2 qualifications a year through learndirect by 2010.<sup>12</sup>

12. The percentage of learners completing courses is improving – course completions increased from 44% in 2001–02 to over 70% in 2004–05. In 2004–05, 50% of learners achieved their objectives, and the percentage varies regionally from 47 to 70% (**Figure 4**). This statistic may, however, be under-stated. To meet funding rules, where there is no evidence that a learner has achieved their objectives (such as evidence they are able to use pivot tables following an Excel spreadsheet course), they are deemed, for data collection purposes, not to have achieved them. However, in some cases the learner may actually have met their objectives, but the evidence of achievement has not been retained.<sup>13</sup>

<sup>12</sup> C&AG's Report, para 3.28; Qq 8–10, 30, 85

<sup>13</sup> C&AG's Report, para 3.14; Qq 4–6

**Figure 4: Overall over 70% of learners completed their courses and over 50% achieved their objectives in 2004–05**



Source: National Audit Office analysis of Ufi data

**NOTE**

Achievement is defined as achieving a personal learning goal or an accredited qualification. Data for the academic year 2004-05 may be adjusted following the audit work for Ufi for 2004-05.

13. Some smaller learndirect centres are struggling, particularly those in rural areas and centres dealing with marginalised and disadvantaged learners who require high levels of support. IT connectivity across the UK is not an issue, since 99.6% of the UK is now covered by broadband, but the cost of delivery is an issue in certain areas where there is low population density. One benefit of e-learning is that a physical centre can be replaced by another method of outreach to the learner.<sup>14</sup>

14. The National Advice Line Service attracts a relatively large number of calls from ‘hard-to-reach’ learners – over half of callers (58%) had not undertaken any learning in the last three years compared with less than 25% of the wider population. The Department set a target for 2003–04 of 0.5 million calls from people who are pre-level 2 qualified, reflecting its emphasis on learners without a level 2 qualification, but Ufi achieved only 63% of the target. In 2004–05 the number of calls fell, and Ufi achieved only 54% of that year’s target of 0.45 million.<sup>15</sup>

15. A third of all calls come via the help lines of a range of partner organisations, including the BBC and ITV, six sector skills councils, the Learning and Skill Council’s Apprenticeship campaign, the Department’s ‘Get On’ (Gremlins – literacy and numeracy) campaign, and the National Institute for Adult Continuing Education. Some of the shortfall may reflect calls taken on behalf of campaigns, which may drop in a particular year where the proposed launch date for a campaign is changed. Ufi has agreed a target of 0.3 million calls with the Learning and Skills Council for 2005–06. Website contacts are growing at about 20% a year.<sup>16</sup>

14 C&AG’s Report, para 2.30; Qq 12, 27

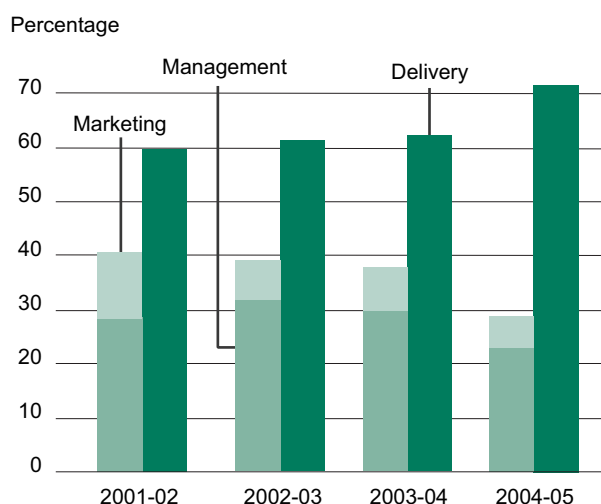
15 C&AG’s Report, para 3.5

16 *ibid*, paras 2.7, 3.5; Qq 82–84

### 3 Improving efficiency by reducing costs and maximising value

16. In 2004–05 £187.6 million was spent mainly on services to learndirect learners. Of this, 29% went on marketing and management in Ufi and the hubs, which administer the centres in their area, with the remaining 71% spent directly on developing and delivering courses, and providing ICT. As Ufi matures, marketing and management costs are being reduced. **Figure 5** shows the profile of reducing management and marketing costs since 2001–02, and the budget for 2005–06 is £10 million less, at £44 million. The four tiers of Ufi and the learndirect network – Ufi’s central and regional offices, the learndirect hubs and centres – provide an opportunity to reduce overheads further by eliminating duplication and inefficiency.<sup>17</sup>

**Figure 5: The percentage of expenditure spent on management and marketing is reducing**



Source: National Audit Office analysis of Ufi funding data

#### NOTE

Delivery costs include expenditure on learning centres, ICT and courses. Marketing and management costs include Ufi and hubs. 2001-02 and 2002-03 are financial years, 2003-04 covers the 16 month period April 2003 to July 2004. Data for the academic year 2004-05 may be adjusted following the audit work for Ufi for 2004-05.

17. In its early days, Ufi had no history on which to promote its products outside learndirect, but people now have more confidence in this method of learning and learndirect materials could be more widely exploited. Local Learning and Skills Councils are encouraged to identify opportunities for using the material for workforce development. Pilot work by Ufi with schools, further education institutions and work-based learning providers has found that many cannot make the best use of learndirect material, for example because of differences between e-learning and traditional classroom based models.

Ufi is developing new course licence models to allow colleges and other providers to build learndirect material into their own learning programmes for learning related to the National Employer Training Programme and Apprenticeships.<sup>18</sup>

18. The Department sees its role as the voice and champion to help spread the use of learndirect products, including by other government departments and local government in improving access to information about public services. There is no charge for this work, but the Department may look to these other organisations to provide some of the mechanisms for developing the activities further. It is funding Ufi separately for new products such as My Guide, which is a tool to help people who have learning difficulties and disabilities to access the internet. Ufi is looking into how to provide learndirect in prisons, where internet access is often prohibited, and wishes to resource this type of innovation without putting its core funding at risk.<sup>19</sup>

19. In summer 2005, Ufi notified the National Audit Office that it had identified weaknesses in the internal controls used by some hubs and learndirect centres. Ufi is conducting investigations to determine if these weaknesses have led to some centres receiving funding to which they were not entitled. Its current assessment is a maximum £2 million public funding at risk, and more detailed investigations are under way to validate the figure. Ufi will then recover any funding from the centres not entitled to it and send a report to the police.<sup>20</sup>

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18 C&AG's Report, para 2.15; Q 16

19 Qq 27, 91–92

20 C&AG's Report, para 1.25; Qq 67–74



# Formal minutes

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**Wednesday 1 February 2006**

Members present:

Mr Edward Leigh, in the Chair

Mrs Angela Browning

Mr David Curry

Helen Goodman

Mr Austin Mitchell

Sarah McCarthy-Fry

Jon Trickett

Kitty Ussher

Mr Alan Williams

A draft Report (Extending access to learning through technology: Ufi and the learndirect service), proposed by the Chairman, brought up and read.

*Ordered*, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 19 read and agreed to.

Introduction read and agreed to.

*Resolved*, That the Report be the Twenty-eighth Report of the Committee to the House.

*Ordered*, That the Chairman make the Report to the House.

*Ordered*, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned until Monday 6 February at 4.30 pm.]

# Witnesses

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**Monday 21 November 2005**

*Page*

**Ms Susan Pember OBE**, Department for Education and Skills, **Mr Mark Haysom**, Learning and Skills Council, **Ms Sarah Jones** and **Mr Pablo Lloyd**, Ufi and the learndirect service

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Second Report	The regeneration of the Millennium Dome and associated land	HC 409 ( <i>Cm 6689</i> )
Third Report	Ministry of Defence: Major Projects Report 2004	HC 410 ( <i>Cm 6712</i> )
Fourth Report	Fraud and error in benefit expenditure	HC 411 ( <i>Cm 6728</i> )
Fifth Report	Inland Revenue: Tax Credits and deleted tax cases	HC 412 ( <i>Cm 6689</i> )
Sixth Report	Department of Trade and Industry: Renewable energy	HC 413 ( <i>Cm 6689</i> )
Seventh Report	The use of operating theatres in the Northern Ireland Health and Personal Social Services	HC 414 ( <i>Cm 6699</i> )
Eighth Report	Navan Centre	HC 415 ( <i>Cm 6699</i> )
Ninth Report	Foot and Mouth Disease: applying the lessons	HC 563 ( <i>Cm 6728</i> )
Tenth Report	Jobskills	HC 564 ( <i>Cm 6724</i> )
Eleventh Report	Local Management of Schools	HC 565 ( <i>Cm 6724</i> )
Twelfth Report	Helping those in financial hardship: the running of the Social Fund	HC 601 ( <i>Cm 6728</i> )
Thirteenth Report	The Office of the Deputy Prime Minister: Tackling homelessness	HC 653 ( <i>Cm 6743</i> )
Fourteenth Report	Energywatch and Postwatch	HC 654 ( <i>Cm 6743</i> )
Fifteenth Report	HM Customs and Excise Standard Report 2003–04	HC 695 ( <i>Cm 6743</i> )
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Seventeenth Report	Achieving value for money in the delivery of public services	HC 742 ( <i>Cm 6743</i> )
First Special Report	The BBC's investment in Freeview: The response of the BBC Governors to the Committee's Third Report of Session 2004–05	HC 750
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Nineteenth Report	Department of Health: Tackling cancer: improving the patient journey	HC 790
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Twenty-first Report	Skills for Life: Improving adult literacy and numeracy	HC 792
Twenty-second Report	Maintaining and improving Britain's railway stations	HC 535
Twenty-third Report	Filing of income tax self assessment returns	HC 681
Twenty-fourth Report	The BBC's White City 2 development	HC 652
Twenty-fifth Report	Securing strategic leadership in the learning and skills sector	HC 602
Twenty-sixth Report	Assessing and reporting military readiness	HC 667
Twenty-seventh Report	Lost in translation? Responding to the challenges of European law	HC 590
Twenty-eighth Report	Extending access to learning through technology: Ufi and the learndirect service	HC 706

The reference number of the Treasury Minute to each Report is printed in brackets after the HC printing number

# Oral evidence

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## Taken before the Committee of Public Accounts

on Monday 21 November 2005

Members present:

Mr Edward Leigh, in the Chair

Greg Clark  
Sarah McCarthy-Fry  
Jon Trickett

Kitty Ussher  
Stephen Williams

**Sir John Bourn KCB**, Comptroller and Auditor General, and **Ms Angela Hands**, Director of Education and Skills Value for Money Studies, National Audit Office, were in attendance and were further examined.

**Ms Paula Diggle**, Second Treasury Officer of Accounts, HM Treasury, was in attendance.

### REPORT BY THE COMPTROLLER AND AUDITOR GENERAL EXTENDING ACCESS TO LEARNING THROUGH TECHNOLOGY: UFI AND THE LEARNDIRECT SERVICE

*Witnesses:* **Ms Susan Pember OBE**, Director of Learning and Skills, Department for Education and Skills, **Mr Mark Haysom**, Chief Executive, Learning and Skills Council, and **Ms Sarah Jones**, Chief Executive, and **Mr Pablo Lloyd**, Deputy Chief Executive, Ufi and the learndirect service, examined.

**Q1 Chairman:** Good afternoon. Welcome to the Public Accounts Committee where today we are considering the Comptroller and Auditor General's Report on *Extending access to learning through technology: Ufi and learndirect*. We welcome Sarah Jones, the Chief Executive of Ufi/learndirect, Mark Haysom, who is Chief Executive of the Learning and Skills Council, Susan Pember, who is Director of Further Education and the Learning and Skills Performance Group of the Department for Education and Skills, and also Mr Pablo Lloyd, who is Deputy Chief Executive of Ufi/learndirect. Can I direct my early questioning to you, Ms Jones? If you would please look at page 26, paragraph 2.26, you will see that you were set up in 1998, by 2005 you had spent the best part of a billion pounds, £930 million, but only 37% of employers know about your business services. How can this be value for money?

**Ms Jones:** In the five years that the network has been running we have been focusing very hard on building the public funded side of the business. We have had 1.7 million learners and delivered four million courses on that side of the business. We have generated brand awareness of 74%. The brand awareness is also at 71% in SMEs but when we actually look at the awareness of learndirect business, which is a specific offering we have, it falls away to 37%. We clearly recognise that now, as we start to mature our organisation, we have a lot more to do in addressing the needs of the SME market.

**Q2 Chairman:** I would have thought this was a fairly key result because this is potentially a very useful service to business, is it not?

**Ms Jones:** Yes, it is.

**Q3 Chairman:** It does not really say much about your profile, spending £930 million if 37% of businesses do not know how you can help them.

**Ms Jones:** Our general profile, the brand awareness of learndirect, is good within SMEs. It is 71%. It is the specific offering of what we can offer to their organisation that needs addressing. We have been focused on developing individuals and how individuals might progress and work. We have not been focused on how an organisation needs to develop so, for example, we have not been offering compliance training and that is something SMEs want and is something we want to address.

**Q4 Chairman:** Let us now look at whether people are getting something out of these courses. If you look at page 34, "Achievements and course completions by learners are increasing", there are some figures at paragraph 3.14, figure 23, and what these show is that only 50%, roughly half, of learners achieve their objectives per course. Why is that? This is an objective, by the way, that they have set themselves and only half of your learners achieve their objectives.

**Ms Jones:** I believe that is down to data entry because we do not track and monitor specifically on outcomes achievement. What we track is the completions and the completion rate is above 70%. We have got a stated record of 50% of people who achieve their outcomes.

**Q5 Chairman:** Perhaps the National Audit Office might comment on that because, if you look at paragraph 3.14 and look at the figure, you have got a clear phrase there that says, "over 50% achieved their objectives in 2004-05".

**Ms Hands:** That is according to the evidence that is available, yes.

**Q6 Chairman:** That is perfectly clear, is it not? We seem to be getting a slightly different message from Ms Jones.

**Ms Jones:** No, I am not disputing the fact that there is evidence there of 50%. What I am saying is that an individual might complete their course; that is the 70% figure. Their personal outcome might be, for example, if it is an Excel spreadsheet course, to use pivot tables and what we have not got is a stated record of whether they personally achieved their outcome, but they passed the course and that is the 70% figure.

**Q7 Chairman:** If you look above there to the top of page 35, it says, "In 2004–05, over 50% of learners achieved their objectives, and the percentage varies regionally from 47 to 70%". That is a huge variation, is it not?

**Ms Jones:** It is a variation but again it depends on whether tutors are noting those facts down. What we have got there is just the evidence that is recorded on the system.

**Q8 Chairman:** Let us look in a bit more detail at what people are achieving. If you now look at page 39, paragraph 3.26, you will see that only 9% of learnirect learners below Level 2 gained a full Level 2 qualification after two years. Why is that? It does not look very good to me.

**Ms Jones:** Because part of learnirect's offering is not just focused on qualifications. What we have got is 81% of our learners reporting that they have a positive outcome in work and improved job prospects. We have got over 46%, I believe the figure is, of people who go on to a form of higher learning, and then we have got 9% who progress to full Level 2.

**Q9 Chairman:** As with all these things, we can choose any statistic we want to. There is no point me giving you a statistic and you coming out with another one. I was asking specifically about this. It says there in paragraph 3.26, "A recent survey that tracked people for up to two years after their initial contact with learnirect indicated that 9% of learnirect learners qualified below Level 2 gained a full Level 2 qualification over the two years." That is there in the Report.

**Ms Jones:** Yes, and we have objectives through to—

**Q10 Chairman:** It is very low, is it not?

**Ms Jones:** We have objectives to improve on that figure.

**Q11 Chairman:** Okay. Let us look at your organisation and your management of it, please. If you look at page 44, paragraph 4.7, how can you be efficient, Ms Jones, if 30% of your money is spent on overheads? That is very high, is it not? You would expect an organisation like you to be spending perhaps 10–15%. You are spending 30% on your overheads, bearing in mind that this is an organisation which has spent £930 million of our money from 1998 to 2005 and 37% of employers do not apparently know about what you do for them.

**Ms Jones:** And we are doing a lot to get that figure down. In 2004–05 the original budget was not to spend £54 million, as is recorded here, but actually

to spend £64 million, so we took £10 million out in year, so that was a saving. This year our budgeted overheads for management and marketing are £44 million, so it has dropped substantially, and next year they will drop substantially again.

**Q12 Chairman:** You would expect people in rural areas to get a lot of benefit for this. This was presumably designed for them, but if you look at page 28, paragraph 2.30, you will see that people in rural areas that are disadvantaged learners, although they should be able to get just as good access as others, apparently do not. Why cannot you guarantee this service to people in rural areas, although I appreciate that it is always going to be more difficult in rural areas?

**Ms Jones:** Our services are geared towards the low skilled population, so we focus on providing to them wherever they are located. Connectivity across the UK is not an issue. 99.6% of the UK is now covered by broadband, so we can reach people. The issue is the costs of delivery in certain areas where there is low population density. The beauty of e-learning is that it is not necessarily that we need the centres there; we need the method of the outreach to reach the person with the low skill need.

**Q13 Chairman:** Again, you would have thought that if this was an organisation that was useful for business it would be generating a commercial income. If you look at page 48, paragraph 4.19, you will see that you have generated an appallingly low commercial income, £12 million. Why is that?

**Ms Jones:** I agree it is a low figure and, as I said earlier, when the business was set up our focus was on sorting out the public funding policy side of the business. Now is the time for us to—

**Q14 Chairman:** But what, Ms Jones, does business think of this service if they are not prepared to pay for it?

**Ms Jones:** We have actually had an awful lot of interaction with businesses. If we look at the SME sector, over 180,000 SMEs have had dealings with learnirect in the five years, and if you put it in comparison terms the British Chamber of Commerce has a membership of 135,000, so we are reaching a lot. We are not reaching enough and we are not generating the income, but we have got plans in hand to change that. We have got very stretching objectives. By the year 2010 we want to be achieving £40 million per annum turnover from the sector.

**Q15 Chairman:** Ms Pember, on behalf of the Department, I think it is a classic case of an organisation which is spending a lot of money with not as much effect as you might expect because it is too complex. You have got the private sector with a finger in the pie, you have got your Department with a finger in the pie, you have got learnirect. It might have been easier to give the money direct to the colleges to get on with it.

**Ms Pember:** When we are looking at those figures in the way you have just described it, you have one version, but when you think that there are 500,000

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people attending learnirect centres every year, and when you think that this was a start-up company back in 1998 and where it has got to now, there is another story to tell there. Sarah was right: the objectives given to them were early objectives. Yes, it was to go into business but it was also to widen participation, it was also to get people into learning who did not normally attend colleges, and in that way it has been extremely successful.

**Q16 Chairman:** You say that, but if you now look at page 24, paragraph 2.15, it says there, “There is a widespread view that learnirect materials could be more widely exploited”, so it seems that the rest of the education sector, for example, schools and colleges, could be making better use of learnirect’s courses, could it not?

**Ms Pember:** I think that is perfectly right and they have built up a reputation now where colleges and schools are saying, “Those materials are really good. Can we not have them converted to things that we want to do?” If you had done that six years ago, if you had gone to an FE college six years ago and said, “But learnirect is coming on stream”, there was no history to say that these products were going to be good, so again I think you can see the contribution that learnirect has made to online learning. People did not have that confidence in this CD-ROM type of learning six years ago but they do now. The Department has been working with Sarah’s staff to make sure that they have access to our schools colleagues so that if there are benefits that we can transfer from adult materials to materials for young people we do that.

**Q17 Chairman:** Lastly, I was going to ask a question about this breach of internal controls on page 19, paragraph 1.24. Perhaps Mr Haysom can help with that because you have been investigating a breach of internal controls. Perhaps you would give an assurance to the committee that you are managing this risk, that learnirect centres “may falsely create learner activity”.

**Mr Haysom:** Yes, I can confirm that we are working very closely with Ufi on this matter and that we were pleased that it was Ufi that identified some of these issues and that we are on top of it between us.

**Q18 Chairman:** It is quite serious, is it not? Have the police not been brought in as well?

**Mr Haysom:** This is a separate matter. I do not have the absolute detail on this other than to say that because it is a police matter it is not something that we are in a position to comment on at this stage.

**Chairman:** It is a separate matter; I apologise. Thank you very much.

**Q19 Sarah McCarthy-Fry:** If I can address first of all Ms Pember, right at the start of the NAO Report it highlights the problem of the skills gap in the UK on page 13. It says, “The relatively low level of skills in the UK’s workforce contributes to relatively low productivity”. Presumably that was the reason that learnirect was set up. How are you measuring whether you have achieved that objective?

**Ms Pember:** You are right. Learnirect was set up originally to widen participation and to get people into learning who had been turned off learning and, as I said, it has been successful in doing that. How are we measuring that? We are measuring it by helping people to take up learning opportunities. After the first three years we asked learnirect to re-look at the way they were focusing their energy and they are now one of the best skills-for-life deliverers that we have in the country, with last year over 30,000 people getting one of their first certificates in literacy or numeracy. That is something new for learnirect. Up until then they were asked to be non-qualification led and now they are qualification-led. We are looking at it from participation numbers, we are looking at it from service evaluation and now we are looking at it on how many people pass an examination.

**Q20 Sarah McCarthy-Fry:** You seem to be going down two routes here. We seem to have a focus on the people who have very poor literacy and numeracy, but also we have a focus on trying to do the skills for business. To me they are two totally different paths. Which one did you expect learnirect to do? Did you expect them to do both or was focusing on the business a way of getting the funding for the literacy and numeracy?

**Ms Pember:** We expected them first to make themselves into a credible business with a reputation that people would want to take up opportunities and that they were able to hold their own within the education world, which they have done. At the same time we do want them, now they are a mature business, to work with industry so that we can draw in new income and full fees, which is part of the same story that we are doing with the rest of the FE world. We are now focusing our attention on making sure that their activities are helping implement the national targets and drawing in new income.

**Q21 Sarah McCarthy-Fry:** But did you not think that the sort of people who were going to access getting the literacy and numeracy, the really initial building block, were not the sort of people who were interested in whether it was good business or not, but rather that it was the sort of business that was going to encourage them to go and learn these things, particularly with adults, where there is a huge stigma attached to saying that you cannot read or write or fill in a form or add up.

**Ms Pember:** You are right, but they are not two priorities that cannot work hand in hand. For some of the businesses that learnirect are already working with, it is the literacy and numeracy diagnostic assessment and the online literacy and support that those employers are interested in and we think over time will begin to want to pay for.

**Q22 Sarah McCarthy-Fry:** Can I turn to you, Ms Jones? Again, coming back to the original set-up of learnirect, the Department wanted you to do something that nobody else was providing, so obviously it wanted you to be innovative. How did you go about trying to get that? What research did

you do to find what would work and what would not, or has it been trial and error as you have gone along?

**Ms Jones:** It has been partly both. Part of innovation is to try some things, to take some risks and then quickly analyse whether they are having success or not. There was a lot of research done in terms of what was turning learners off and that is why some of the bite-sized theory behind the size and shape of the learning, the fact that it is quite private learning for people who had previously been embarrassed in the traditional classroom environment, appeals to them, and also the flexibility. It is any time, it is any place and any pace, so it is very attractive to shift workers, it is attractive to people who have care obligations so they cannot regularly commit to turning up, let us say, at six o'clock on a Wednesday evening for a night school type of course. That approach was tested and found to be very successful. Also, in terms of looking at businesses, some of the barriers to SMEs investing in training (and about 59% of SMEs do not do any training at all) are things like costs, time away from the desk, travel expenditure, etc, that goes on around the learning, so the fact that we can deliver learning to people in the workplace is seen as an attractive thing. What we have clearly got to do is go in there and exploit the success criteria that we have got.

**Q23 Sarah McCarthy-Fry:** In this innovation you have been trying to do, if you could go back and do it again is there anything you would do differently, knowing what you know now?

**Ms Jones:** That is an interesting question. I think part of innovation is always trying things, so there are some things that were tried that did not work but I think the skill of this organisation has been to spot very quickly those issues and move on. The area that we did not get right and we moved away from is the SMEs and the large employer market, and now is the time to move back to that and try and exploit it successfully because clearly we have failed to do that so far.

**Q24 Sarah McCarthy-Fry:** If you are going to get the large employers, the SME market in there, surely the first thing you are going to have to do is find out what they want. Were you perhaps trying to sell them a product they did not want?

**Ms Jones:** Yes, we were part of the portfolio was confused so there was a big overlap in mixture between what was free and publicly funded and what they had to pay for, so it was difficult to make the sale. Also, it was designed more for the individual and the individual progressing and not for the organisation and what the organisation needs, so we have got to listen to organisations. I think it is very helpful with the sector skills councils now because we have got a conduit there so that we can really listen hard and build a product portfolio around what the needs of business are.

**Q25 Sarah McCarthy-Fry:** Are you intending to restructure your organisation to do that?

**Ms Jones:** We already have restructured it. The restructuring took place over August and September of this year, so we have a focused business development activity now which is targeting the business market.

**Q26 Sarah McCarthy-Fry:** This is a question that I am struggling with. A lot of your stuff is online. If we go to basic literacy and numeracy, if people are struggling with that they are unlikely to be able to use a computer. How do you deal with that?

**Ms Jones:** They wear headphones, so even though the words are on the computer there is a voice-over.

**Q27 Sarah McCarthy-Fry:** On the innovation bit can I come to Ms Pember and Mr Haysom? Presumably you want learndirect to continue to be innovative. Innovation, as we have heard from Ms Jones, means that if you are going to try things out sometimes they go wrong. How are you going to help them to continue to innovate?

**Mr Haysom:** You are absolutely right. It is terribly difficult to maintain the right kind of culture of innovation as an organisation matures 1-1 and it has now reached that point of maturity. An awful lot of it comes down to us being very clear about what we want learndirect to do and having the right kind of relationship with Sarah and her team to be able to allow that. The fact that we both come from the private sector, Sarah and I, is probably helpful here and so we can talk the same language about that. Yes, you are right. It is very important to try and create the right kind of culture. It is not just about money. In fact, money is usually the least of it. I hope Sarah will agree. It is more about just having the right kind of mindset within the organisation and being prepared to take some of those risks that have got learndirect to where it is today.

**Ms Jones:** We are still innovating. We are not at the end of the innovation process and our innovations are about improving our efficiency in the organisation. For example, we have just in-sourced the IT and that will save us, ongoing, a million pounds *per annum* as we go. We innovate in the way that we offer our service so that we are better able to bridge the gap on the rural need and what we can afford to do. There are things such as we are innovating on how we provide learndirect into prisons, which is a new area, where still internet access is often prohibited, how we can get ourselves there. We are constantly innovating. As Mr Haysom said, it does not take budget to do that. It takes a skill set and a mindset about looking for the opportunities and working together.

**Ms Pember:** That is where I think one of the roles the Department can offer is making sure that when new things come up we are the voice and champion of learndirect and that we are able to say, as we do with offender learning, that that is a solution that is already there, that they can pilot and work with offenders, but also to make available the capacity so that their core funding is not at risk. When we have got something new, like something that we called *My Guide*, which is a new tool to help people who have learning difficulties and disabilities to access



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the net. That was a new pilot project and what we have done is funded learndirect separately to take that on because it is a new project with new risks attached to it. It is the same for having advice and guidance in every town in the country and in the skill strategy we have marked that up as a new venture. Again we have funded learndirect separately for that because there is a risk attached to it and we need them to carry on with their core business on the one hand, but on the other hand we need them to do this innovative work maybe in a different way.

**Q28 Kitty Ussher:** Ms Jones, what is your PSA target?

*Ms Jones:* Skills for Life and this year we are contributing on contract 29,000 Skills for Life first test passes but we actually think we are going to exceed that, more to the tune of about 40,000 Skills for Life first test passes in this academic year.

**Q29 Kitty Ussher:** And that is your main overall target. Skills for Life is basic literacy and numeracy, is it?

*Ms Jones:* Yes.

**Q30 Kitty Ussher:** Ms Pember, are there any other PSA targets that the University for Industry is involved in?

*Ms Pember:* Not at this moment because, as I said, over the last few years we have changed the priority. It was getting people in in the first round and then Skills for Life, so that they worked more towards a qualification. And now, as we put more focus on Level 2, we will be looking to learndirect to raise their profile in that area of work, but it was not their first priority. The first priority was getting people in. We have to balance getting people in who have never done any learning before against the need to get people moved on quite quickly to get a Level 2 qualification.

**Q31 Kitty Ussher:** Correct me if I am wrong. I do not know if this is an interest I should declare, Chairman, but I was privileged to be working for the Labour Party in the run-up to 1997 and I remember where this idea came from, the University for Industry, and it was very much about skills in the workplace; it was very much about raising Britain's productivity levels. I have to admit I have not been involved in the policy since then but I come here and ask you what your PSA targets are and it is worthy but entirely different. I do not know whether the Department can comment on what has happened in these few years.

*Ms Pember:* As Sarah has already explained, the emphasis was put on the person, not the employer, but the majority of people who take up learndirect activity are in some form of employment. If you went, say, to Bluewater, the shopping centre, there is a learndirect centre there which is really well used by the workers at Bluewater, but if you went to one of the shops there they might not know their own employees were doing that activity. It is still work focused and many centres are in employers' premises or on trading estates within a geographical area but

it is focused on the individual being motivated to go in and do something that was about their learning. I still say it is first round stuff. It helps their work chances but it is individual-led, not employer-led.

**Q32 Kitty Ussher:** In terms of your Department more broadly, you obviously set PSA targets to do with productivity, broadly defined here as a macro-economic concept.

*Ms Pember:* Yes, which are the participation in HE, the Basic Skills one and the Level 2 at 19.

**Q33 Kitty Ussher:** Which is the same as yours, Mr Haysom, presumably. As your Department is negotiating for the next spending round, which obviously is linked to the next round of PSA targets, Ms Pember, what contribution would you say learndirect should be able to contribute?

*Ms Pember:* We have to agree new policies but I think learndirect has already started re-aligning its business towards the Level 2 activity and I think that will be something we will be looking to them for. The other thing is that this is an online organisation and running along with the innovation of learndirect we have had to have QCA matching that with online testing. At the moment we really only have online testing in literacy and numeracy, so there is some more work to be done to make sure the assessment methods that we use are as innovative as the way we are training these people.

**Q34 Kitty Ussher:** Would you agree that the potential is enormous? Of the top of my head we have got about 27 million people in work and you are touching half a million people a year, which is 2% or so, so over five or six years you could have an enormous effect on the overall prosperity of our country if we get this right. Will you be able to quantify that? Will you be able to have targets that affect Britain's GDP?

*Ms Pember:* That is exactly the type of work we want to do with learndirect and the Learning and Skills Council leading up to the Spending Review 2007.

**Q35 Kitty Ussher:** Will those targets be publicly available?

*Ms Pember:* On the type of information. The Government has to decide at the time what the targets will be.

*Mr Haysom:* It is worth noting that this is recent focus on Skills for Life and Level 2. It is only from last year effectively so it is a very recent change and the fact that Ufi I can help to deliver so well the Skills for Life agenda is a very positive sign and we will be looking to build on that.

**Q36 Kitty Ussher:** For sure; I do not dispute that in any way. I am just thinking of the potential to make our country richer as a result of the work you are doing. I look forward to hearing more about that. Could you describe for me what an employer should do if they identify a skills gap in their workforce and they think you might be able to fill that gap?

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**Ms Jones:** We reach out to employers and try and engage them. Also, if they identify a need themselves then hopefully through the brand awareness which we will be addressing and improving they will know to come to us and they can either go to a learning centre or we are developing relationships with other key partners and brokers so that they can signpost them on. For example, a lot of small businesses have their trusted adviser, whether it is their accountant or the Small Business Service or whatever, so it is very important that those people know what learnirect has in its toolbag and how it can be of help to a business going forward. That is one of the key areas that we have failed to address in the past and we need to improve on.

**Q37 Kitty Ussher:** How customised can you be?

**Ms Jones:** With the SME market it is a matter of breaking it down into the more standardised chunks that we know a business wants, so a lot of that is around compliance training for legislation. For large employers we have done some bespoke work. Barclays is the case in the Report where we focused on what their specific training need was for their employees and we have developed a product portfolio around that but, obviously, that involves investment and the large employer needs to be prepared to pay for the investment because that is not something that we would use public funds for. It is the reason why we have got two separate organisations, limited companies, within the business, so that any investment which is private sector is ring-fenced and dealt with and kept well away from any public monies.

**Q38 Kitty Ussher:** But surely each company has very specific training needs. Will you be able to operate a bespoke product? Are you going to find out where the gaps are for that product?

**Ms Jones:** In which market? In the SMEs or large companies?

**Q39 Kitty Ussher:** SMEs particularly but either. How flexible can you be?

**Ms Jones:** We are always looking for the right products to fit business need but are we going to design a product for a very small business on a particular high street? No. We are going to look for generic products which have got several purchasers across the SME market. The SME market itself is fairly fragmented so we can target things and be specific. Our market research needs to look at that and find where the demand is and invest in those products where we can fill gaps. Working through the sector skills councils could be useful in those areas because they are the ones who know what is needed in their sector.

**Q40 Kitty Ussher:** Do you have particular targets for the number of small business clients you hope to have?

**Ms Jones:** We are not targeting in terms of numbers of clients. We are targeting in terms of revenue that we can derive from the market and it will be £40 million per annum by the year 2010 which, based

on the fact that we have got £12 million so far in five years, is quite a stretching and demanding target for us.

**Q41 Kitty Ussher:** One of the other ways that the Government has been trying to increase the skill level of the workforce is through a trade union learning centre which seems to have proved quite successful because it helps people overcome inhibitions that they may have on the current workforce shop floor. Is there anything you can learn from this and is there any scope for collaboration with these people?

**Ms Jones:** We work very closely with the trade unions. In fact, the TUC is one of our hub operators.

**Q42 Greg Clark:** Can I pursue this question of commercial revenue? Ms Pember, most of the £12 million revenue over five years that was mentioned to the Chairman, came from the public sector, not from commercial businesses. Is that right?

**Ms Pember:** I thought it was a mixture of both, myself. Yes, it was a mixture of both.

**Q43 Greg Clark:** According to the report there were two key contracts. One was with Connexions and the other one was with the NHS University, the NHSU. Is that correct, that they were the main contracts?

**Ms Jones:** I can give you a figure. Connexions was £6 million and the NHSU was £1.1 million.

**Q44 Greg Clark:** So £7.1 million of the £12 million was not commercial revenue at all. It was from the public sector?

**Ms Jones:** Yes.

**Q45 Greg Clark:** That is significant, is it not, because the Chairman's questions were about whether this was popular with SMEs and small businesses. It is a different matter having a massive contract with another part of the state. What plans do you have to increase it from a tiny amount, about a million pounds a year, up to £40 million a year by 2010, which is only five years away? Is that a credible target?

**Ms Jones:** It is a very stretching target.

**Q46 Greg Clark:** But is it credible?

**Ms Jones:** It is credible based on the work that we have done in terms of research in demand sectors.

**Q47 Greg Clark:** What revenue have you got this year from non-public sector sources?

**Ms Jones:** We are still in the development phase for learnirect business. From large employers we have a revenue which is still continuing around the £1.0–£1.5 million mark and from the SME sector it is still very small because we are about to go to the market with new pilots which will test different areas of activity.

**Q48 Greg Clark:** So this year is pretty much written off in terms of getting to that target?

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*Ms Jones:* It has been a developing year.

**Q49 Greg Clark:** You have got three years to get from about £1 million a year to £40 million a year.

*Ms Jones:* Yes.

**Q50 Greg Clark:** Who chose this target?

*Ms Jones:* It was agreed by our board.

**Q51 Greg Clark:** With whom?

*Ms Jones:* With the management team.

**Q52 Greg Clark:** So you set it yourself, this target?

*Ms Jones:* Yes.

**Q53 Greg Clark:** Ms Pember, does the Department have anything to say about this target? Do you have any role in supervising the choice of targets?

*Ms Pember:* We have looked at and analysed the way that learndirect has developed that target and with the business plans they have got in place and with their board, who are all key business figures who have been quite successful in their own right, and the business plan that we have behind it, we think that learndirect will probably achieve that target.

**Q54 Greg Clark:** If it does not achieve it does the Department have any say in this, given that the organisation itself set it?

*Ms Pember:* Because they are not using public funds to support that exercise it will not be a loss to the Department. This is a new business venture and that is why they have set up the separate company in learndirect Solutions.

**Q55 Greg Clark:** Who contributes the capital for that company?

*Ms Pember:* The capital is not the same. They are hubs and they are franchise organisations at the learning centres. They do not have capital in the way of a normal college.

**Q56 Greg Clark:** So there is no capital?

*Ms Pember:* There is no capital other than the infrastructure of the ICT but then most of that, when it is on employers' premises, is paid for the employer.

**Q57 Greg Clark:** So there is no capital, there is no working capital? This commercial subsidiary needs no capital with which to operate?

*Ms Jones:* The only investment we need, as Ms Ussher was saying, is when we are building specific courses if we want to do bespoke work, so that is where, if I am working with a large employer, I expect the large employer to make that investment in the product.

**Q58 Greg Clark:** Does it have a dedicated staff who work in the subsidiary?

*Ms Jones:* Very small because it is a very small business.

**Q59 Greg Clark:** Is it profitable from the beginning?

*Ms Jones:* It is. Learndirect Solutions is profitable.

**Q60 Greg Clark:** So it has no overheads?

*Ms Jones:* The overheads are kept very small. Also, we make sure that if we are using anything of our central government funded organisation then we charge it at a commercial rate in learndirect Solutions.

**Q61 Greg Clark:** What happens if the revenue does not come in in the way that you anticipate and you cannot cover even those minimal costs? What is the procedure then?

*Ms Jones:* The costs would fall away. Each contract bears its own costs so if the contract falls away then the costs fall away.

**Q62 Greg Clark:** So there is no-one employed specifically to manage this commercial venture?

*Ms Jones:* There are two people employed there at the moment.

**Q63 Greg Clark:** Who pays their salary if there are no contracts to support them?

*Ms Jones:* They are paid by the contracts we have in that side of the business and they are on rolling contracts so if the contract was not renewed their contracts would not be renewed.

**Q64 Greg Clark:** In terms of your overheads, which again were referred to earlier, you have had a reorganisation during the summer, you said. How many people are working in marketing now?

*Ms Jones:* 20, 23?

*Mr Lloyd:* Something like that.

**Q65 Greg Clark:** How much of a reduction is that?

*Ms Jones:* In marketing I believe by about a third.

**Q66 Greg Clark:** And in the more general overheads? Is that consistent?

*Ms Jones:* Yes.

**Q67 Greg Clark:** It would be helpful to have up to date figures. Can I ask about this rather worrying reference in the Report to your noticing that there have been significant weaknesses in internal controls that may have resulted in some units receiving funding to which they are not entitled? Can you give your latest assessment of how many units and what level of funds we are talking about?

*Ms Jones:* As part of the background behind that we do regular audits, we do quarterly audits and then we do an end of year in-depth review. In preparation for the end of year in-depth review, which will take place now.

**Q68 Greg Clark:** I am happy about the process you have gone through but what is your latest assessment of what public funds are at risk? What is the quantity?

*Ms Jones:* We analysed our own data and we spotted a potential trend.

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**Q69 Greg Clark:** I know how you have done it. What is the quantity now that is in question?

**Ms Jones:** No more than £2 million.

**Q70 Greg Clark:** What is the minimum?

**Ms Jones:** I do not have a minimum figure. What I have is a maximum figure. It is no more than £2 million and we are now dealing with the detailed investigations to build that number up.

**Q71 Greg Clark:** And if some of these organisations have received funding to which they are not entitled how are you going to recover that?

**Ms Jones:** Our normal procedure is that we go in, we do a detailed investigation with the organisation, we recover the monies and then we send the report to the police.

**Q72 Greg Clark:** And in terms of the public getting its hands on money that may have been misallocated, how does that happen?

**Ms Jones:** We recover the funds.

**Q73 Greg Clark:** From?

**Ms Jones:** From the organisation.

**Q74 Greg Clark:** What if they have not got any money?

**Ms Jones:** We still attempt to recover the funds from any provision that they may have.

**Q75 Greg Clark:** Is it part of your assessment when you enter into contracts with suppliers that they are robust enough financially to be able to pay that?

**Ms Jones:** Absolutely.

**Q76 Greg Clark:** So if you find that, say, a million pounds is owed, you are confident that that would not be written off and you would get it back?

**Ms Jones:** Yes.

**Q77 Greg Clark:** Finally, can I ask the National Audit Office: it was difficult to discern from the report whether the NAO's view is that Ufi offers value for money. Can we clarify that at this stage?

**Sir John Bourn:** Our view is that it potentially offers value for money but it does not do it yet because of the reasons that have been canvassed in the discussion so far, like the quantity of overheads, like the degree of market penetration and other factors of that kind.

**Q78 Greg Clark:** You will have experience of the Open University which is quite effective in a different market at delivering services directly. I was surprised that there were not more benchmark comparisons yet to be able to make that assessment. Was that something that went on or is there a reason why that was not there?

**Ms Hands:** The learndirect service is pretty unique. It is quite difficult to get comparators. In terms of the costs per course, for example, those are only just becoming available. Because it is an online system it is not directly replicated elsewhere.

**Q79 Greg Clark:** Online systems are not that unusual nowadays.

**Ms Hands:** In terms of the way the Ufi one works they are quite unique.

**Q80 Stephen Williams:** I do not know whether it is an interest or not but I will declare it anyway. I was formerly a tax manager with Grant Thornton, who I understand are the auditors for Ufi, but I never had any connection at all with Ufi while I was in practice. I want to focus on some of the target groups of learners, particularly those at pre-Level 2 qualifications, grade C GCSE. If you look at page 31, table 17, it shows the growth in the advice sessions that people have had, and the contact people have had with learndirect is increasingly via the website now rather than the telephone. My own webmaster is always bamboozling me with hits and visits to my website, and I notice you have web sessions. These figures look quite impressive, with up to seven million interacting with the website, but surely a lot of those are the same person looking at different things over and over again. Can you define how many people you think are using the website to access learning as unique individuals?

**Ms Jones:** Yes, I can. I think it does state in here how many we believe are repeats, although I do not have the figure to hand. There is a proportion that we think are repeat web sessions and there is also a proportion of callers that we think are repeat callers. About a quarter of callers are repeat callers and that is stated in paragraph 3.4.

**Q81 Stephen Williams:** It also says in paragraph 3.4 that a quarter of the callers are up in London and only 5% are from the north east or the east Midlands or other regions. Clearly, 25% is not a fair share of the population for Londoners and Londoners, from data I have seen elsewhere, tend to have higher qualifications anyway, so do you think you are reaching the right regions with the service or the server?

**Ms Jones:** Yes, we believe we are. We think London is a bit of a quirk. Our own Ufi view is that there is so much provision in the London area that people need signposting through that, so they more often ring up to ask for that help in directing them to the best course in the area.

**Q82 Stephen Williams:** Paragraph 3.5 maybe demonstrates how fatuous targets sometimes can be. I notice that the Department for Education originally set you a target of half a million calls from pre-Level 2 qualified people and you failed to reach that target. In the following year, 2003–04, they reduced the target and your success rate was lower again. Now the Learning and Skills Council is perhaps coming to the rescue with a lower target again for 2005–06 of 0.3 million calls. Do you think you are going to meet that target this year?

**Ms Jones:** Yes. I am confident that we are going to meet the target this year. There was definitely a factor in 2004–05 which contributed and that was the fact that we take the calls for other campaigns. For example, with the BBC RAW Campaign

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recently, we have taken the calls for that and the number of calls that we get are part of our target. The Gremlins campaign, the apprenticeship campaign, they all contribute. If one of those campaigns slips in time that means there are fewer calls coming into our advice service, so part of it—and I know this sounds a poor excuse—is beyond our control because it is up to those organisations to launch the campaign that they had planned at the appropriate time and for that campaign to be effective. The other side of it is that the basis of the calculation was changed and I think that is why we ended up with the targets being misaligned for a while, but now we are back on track and we are confident we will achieve those.

**Q83 Stephen Williams:** Do you think the target for other people to contact is meaningful though?

**Ms Jones:** I think it is important for the sector because it means that we are integrating our activity across lots of different organisations.

**Q84 Stephen Williams:** I read also in this section that you do a follow-up or you maintain information on some of the contacts via the telephone but you do not maintain a record of persons who contact you via the website. In that the growth in traffic is on the website anyway rather than the telephone, is that not going to make it harder in future for you to measure how successful you have been in having an impact on individuals' lives?

**Ms Jones:** We are talking to the Learning and Skills Council and the Department to make sure that we are working with the website side of the business as well because it is growing at about 20% per annum at the moment. Vast numbers of people are coming to us via the web and I think that is a shift in how consumers deal with organisations nowadays.

**Q85 Stephen Williams:** Paragraph 3.26 relates to how effective this service might be given that the key user group is people who have got below Level 2 qualifications when they initially contact you. It says that after two years from a survey only 9% of learndirect learners have progressed to a Level 2 qualification. Presumably you are not happy with that.

**Ms Jones:** No, we are not happy with it and we are stretching the target and trying to improve in this area, but we must not forget that many of the people who come to our service are not aspiring to further qualifications at a Level 2 level. Over 50% do progress to a higher level of qualification than their initial point of engagement and also eight out of ten people get a positive outcome at work. Going back to the original basis of why Ufi was set up, it was designed to enhance productivity, so if people are getting a more positive outcome at work, getting a job, getting a promotion in a job, that must be having a knock-on effect on the productivity and the economy of the UK.

**Q86 Stephen Williams:** This might be a question for Ms Pember. In the same paragraph, 3.26, it refers to the unique learner number from 2007 which the

Department is going to introduce. Could you expand on that? What is the purpose of this learner number? Is it going to be allocated to every school leaver or every school?

**Ms Pember:** Every school leaver and it is also the college and the number of the school which the pupil has attended. The rationale behind the learner number is to track people because we suspect that people start in learndirect, they go on then maybe a year later to another course at a college and often progress to Level 2 but because we have not got this unique learner number we have no way of tracking somebody through our system. We want to be able to introduce that so that we can do this progression of information. We also know that some learners go to more than one establishment to further their learning programme and we want to be able to track that as well.

**Mr Haysom:** It is a really important development which will also have a huge impact on reducing bureaucracy because we will not have to keep collecting the same data over and over again and it will also have a real benefit to individuals so that their learning records will be captured and will be available to them and will go with them wherever they are.

**Q87 Stephen Williams:** Ms Pember, how much is this going to cost the Department?

**Ms Pember:** It is part of reducing bureaucracy so you have to measure it against efficiencies. The whole of what we call the in-management information project is costing us between three and five million a year to get it started, but we expect over the next few years to receive that back in efficiency gains because of, as Mr Haysom pointed out, the duplication in the system of every student having to fill out a registration form for every course, every provider having to log them onto a system. Once they are there this will be a very efficient way of dealing with this record-keeping.

**Q88 Stephen Williams:** This presumably is going to go on a database on everyone from the age of 16?

**Ms Pember:** Sixteen-plus, yes.

**Q89 Stephen Williams:** And the database will be restricted purely to educational attainment?

**Ms Pember:** Absolutely, and to the individual as well. Therefore, if they go into an establishment and they cannot remember what their last qualification was or the last time they took part in a learning activity, that information will be there for them and they can keep it renewed themselves.

**Q90 Stephen Williams:** Will this information be discrete to the Department for Education and the Learning and Skills Council or will it be shared with other government departments?

**Ms Pember:** It will be shared with other partners like QCA and the awarding bodies because that is where it stops the duplication, but it will be done with the full knowledge of the individual involved. It will be very similar to the number we already use in HE for entry into university.

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**Q91 Sarah McCarthy-Fry:** Going back to this innovation and the fact that it has taken this amount of time to get this far, Ms Pember, you are looking to recouping investment that has been made in learndirect through businesses. Have you also looked at whether you can recoup it by using the lessons you have learned in other government departments?

**Ms Pember:** Absolutely. We use the example of offender learning with the Home Office. Learndirect is also in contact with the Home Office for developing their own staff skills. We also are very keen over this sort of direct involvement to help people access government information and local government information and we see the centres being part of that. We ran a pilot last year and now we are doing a cost analysis to see how we can do more on that but it is vital now we have grown this expertise that we use it across Departments and across government.

**Q92 Sarah McCarthy-Fry:** Presumably the other Departments will get it cheaper and they will be looked on as if they are really good value for money because you have done all the work. Is there a mechanism for cross-charging?

**Ms Pember:** I think my colleagues in Health will say they have developed some things that we in Education use. I am thinking on mental health and things like that for young people, so there is this

conversation across government. With offender learning and for the Home Office, yes, you could say that Education did the development work for this in the beginning. We have not thought of cross-charging. There are other things we can do, and that is why we are doing this cost analysis where other government departments might have to provide us with some of the mechanisms to develop this activity.

**Mr Haysom:** Could I come back on an earlier point? You used the phrase, "We are looking to recoup the cost of Ufi". I do not think that is an accurate comment, if I may say so. What we are saying is that Ufi is performing an incredibly important function. There is a business opportunity to bring in some money which will offset in part the cost but I would not wish the committee to feel that we are looking to recoup the costs of Ufi. That is not what is going on.

**Q93 Sarah McCarthy-Fry:** I did not say you should manage to recoup the whole cost. I wanted to make the point that innovation costs money because it is trial and error. Therefore I am sure you must be looking to get some money back which we are not getting at the moment.

**Mr Haysom:** Absolutely.

**Chairman:** Ladies and gentlemen, thank you very much. You have heard what the Comptroller and Auditor General has said in his assessment of whether you provide value for money, Ms Jones, and that will be dealt with in our Report.