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Customer First Programme: Delivery of Student Finance

Eighth Report of session 2010–11

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The Committee of Public Accounts

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Summary

Under the Customer First Programme, delivery of grants and loans to Higher Education students in England is being transferred from local authorities to the Student Loans Company (the Company), a non-departmental public body of the Department for Business, Innovation and Skills (the Department). In 2009, the first year of a three-year phased implementation, the Company began assessing applications from new students; by 2011 it will be responsible for applications from all students in England.

Performance in processing applications and communicating with students in this first year was completely unacceptable. There were failures in the Company's management and the Department's oversight, and when these problems became apparent they were not tackled with urgency. As a result, many students waited weeks or months for their financial support.

Fewer than half of all applications were fully processed by the start of term, and the Company took on average a third longer to process applications than local authorities did the previous year. The Company answered fewer than half the calls it received in 2009; in September 87% of calls went unanswered. Disabled students suffered disproportionately in 2009, as the Company devoted too few staff to processing their applications.

The Company also demonstrated a number of IT failings in 2009: most importantly, it did not sufficiently test its crucial document scanning – the failure of which was the catalyst for the failure of the entire system.

The Department's risk management and performance monitoring were all found severely wanting in 2009. The Department underestimated the risks in centralising the service, the Programme Board lacked skills and experience, and there was poor communication between the Programme Board, the Company's Board, and the Department.

The failings in this service highlight wider weaknesses in the Department's oversight of its devolved services. We are disappointed and concerned that responsible officials appear not to have been held to proper account for their failures. There are also a number of lessons – for example, in piloting programmes and testing IT systems – which should be studied by other departments.

In 2010 the Company has improved its performance, although the rate of improvement has been disappointing. We expected better. Over two-thirds (69%) of applications from new students were fully processed by the start of term, the Company's contact centre has outperformed its targets for answering calls, and management information and governance arrangements have been overhauled. However, a quarter (26%) of applications were not sufficiently processed for students to receive even an interim

payment by the start of the first term, which was only a limited improvement on the 34% of applications unprocessed in 2009. and uncertainties remain over the Company's ability to deliver and maintain a service that provides value for money.

On the basis of a Report by the Comptroller and Auditor General,[1] this Committee took evidence from the Department and the Company on the Customer First Programme's performance in 2009 and how it could be improved. In October 2010, the Department provided the Committee with an Updating Memorandum[2] which included information on the Company's performance in 2010 in processing applications for the 2010/11 academic year. The National Audit Office re-performed the analyses to verify the reasonableness of the Department's figures.

1 C&AG's Report, Session 2009-10, *Customer First Programme: Delivery of student finance*, HC 296

2 Ev18

Conclusions and recommendations

1. **It is completely unacceptable that, by the start of term in autumn 2009, the Company had fully processed only 46% of students' applications.** Performance did improve in 2010, to the extent that 69% of new applications were fully processed by the start of the autumn term although there were still 100,000 cases (one in four) which were not sufficiently advanced to enable any payment to be made before the start of term. The Company has a target to process applications within six weeks of receipt and for 2011 it should guarantee to make at least an interim payment on all eligible applications submitted more than six weeks before terms starts. The Department should provide the Committee with a further Memorandum on performance next October. We expect to see a step change in performance to give us the assurance that proper value for money is secured from this programme.

2. **Targets set by the Department to measure the Company's performance in 2009 were inadequate to monitor its performance effectively.** The main target set by the Department was wrong. It measured whether applications had been *partly* processed rather than *fully* processed. The Department and the Company must develop clear, customer-focused targets for all loans, grants and allowances covering the full process from application to approval and payment.

3. **The Company's service to students applying for Disabled Students' Allowances in 2009 was significantly worse than its overall service, with fewer than a quarter of the 17,000 applicants having received payment by the end of December 2009. The Company deployed too few people to process these applications in 2009.** In 2010 the Company has doubled the resources it devotes to the processing of Disabled Students' Allowances, which is welcome. However, it was still taking nearly 18 weeks to process these applications from new students, and this is unacceptable. The Company must work with the Department to set stringent targets for processing applications for Disabled Students' Allowances and ensure sufficient resources are in place by next summer to provide a better service for disabled students.

4. **It is completely unacceptable that 56% of telephone calls to the Company went unanswered in the year to January 2010, and this figure peaked at 87% in September 2009 - when students needed to know whether they would get money in time for the start of term.** The Committee expects the Company to achieve the industry best practice standard of answering at least 95% of calls. We note that the Company's performance improved in 2010, answering 96% of telephone calls in the peak period of August to September. The Company now needs to bring its target into line with best practice and maintain its performance at or above that level.

5. **The Company did not adequately test its document scanning system before going live, and could not cope when the system subsequently failed.** The scanning system is crucial to the timely processing of applications and the Department should assure itself that the Company now has robust contingency plans for maintaining an effective service in the event that the scanning system, or other aspects of its IT, fails again.

6. **The Programme has been dogged by significant delays and cost overruns, notably IT systems.** The Department's plans for achieving financial savings of £20 million a year from 2011-12 have slipped to 2012-13, and it now considers that these savings might be delayed further and possibly reduced. At a time when the Department is facing financial challenges, it is imperative that it achieves the planned savings once the service to the public has been improved and stabilised. The Department should seek increased efficiency at the Company through faster processing and minimising the need for telephone contact with applicants.

7. **Governance arrangements to oversee the programme failed to identify or address emerging risks and problems.** The Programme Board lacked the requisite skills and experience, the three sub-programme boards failed to escalate awareness of emerging risks, and the Company's Board itself was consequently unaware of serious problems with the processing of applications. The Department and the Company should review whether the revised governance structure successfully addresses the weaknesses in the old Programme Board. They should ensure there is full and open communication between all tiers of management, including robust challenge and interrogation of management information and emerging risks.

8. **The Department failed to take prompt action to address serious problems with the Student Loans Company**. For example, despite the unacceptable delays in processing applications in time for the 2009/10 academic year, and the Hopkin Review's recommendations of December 2009, the Company's Chair and Chief Executive were not replaced until May 2010. The Committee is disappointed that the responsible officials in the Department appear not to have been held accountable for their failures. We believe improvements can only be secured when the civil service ensures proper accountability and responsibility for successes and failures. The Committee expects the Department to provide assurance that in future it will closely monitor the performance of the Company, and indeed that of other bodies within the Departmental group, and intervene quickly and decisively wherever the quality of service being provided to users falls short of the standards expected.

9. **The failings in the design and execution of the Customer First Programme have been seen in other programmes sponsored by the Department and more widely across other government programmes which are delivered by arm's length bodies. These include weaknesses in management information, target setting, testing IT systems, piloting, risk management and departmental oversight. We are particularly concerned that in this case the OGC Gateway review process did not surface the problems.** The Treasury has responsibility for disseminating lessons across government and should write to the Committee to explain how it will draw the lessons from this report to wider attention. The Cabinet Office Efficiency and Reform Group should examine the operation of the OGC Gateway process in this case to see if improvements can be made to ensure it operates as intended and provides early notification of problems.

1 The Service provided by Company

The Customer First Programme

1. The Customer First Programme (the Programme) is an initiative of the Department for Business, Innovation and Skills (the Department), designed to centralise and modernise delivery of grants and loans to students from England. Its main aims are to: improve customer service (through faster and more consistent processing of applications); achieve financial savings; and enhance the governance of the system. Under the Programme, responsibility for assessing applications for student finance is being transferred, over three years, from local authorities to the Student Loans Company (the Company), an arm's length public body chiefly funded by, and accountable to, the Department. In 2009, the first year of implementation, the Company became responsible for assessing all first year students; by 2011 it will process all applications from students in England.[3]

2. The first year of the new system was not a success: the Company had major problems in processing applications and in customer service. In March 2010, the Comptroller and Auditor General concluded that the service had not achieved value for money.[4] Previously, at the joint invitation of the Minister of State for Higher Education and the Company's Chairman, Professor Sir Deian Hopkin had carried out a review of the service, which was published in December 2009.[5] In spring 2010, the Department commissioned consultants PricewaterhouseCoopers to assess the Company's readiness to deliver an improved service in 2010 and its progress in implementing the recommendations of the Comptroller and Auditor General and Professor Hopkin.[6]

Performance in processing main applications

3. By the start of the first term of the 2009/10 academic year, the Company had fully processed only 46% of the 385,200 applications from new students for student support (Figure 1). In 5,600 cases, students had applied in time for the Company's administrative deadlines of April and June 2009, but had still not been paid by mid-November. Even by the end of January 2010, 23% of all new applications had not been fully processed and paid.[7]

3 C&AG's Report, para 1.2

4 C&AG's Report, para 18

5 Review of the delivery of financial support to students in England by the Student Loans Company for the academic year 2009/10 and plans for academic year 2010/11 (Hopkin Review), Professor Sir Deian Hopkin, December 2009, www.bis.gov.uk

6 Independent Health Check Review of Student Finance England , PricewaterhouseCoopers report for the Department for Business, Innovation and Skills and the Student Loans Company, April 2010

7 C&AG's Report, paras 5-6,2.15-2.16

Figure 1: Comparison of performance in processing applications from new students at the start of term, 2008/09 to 2010/11

	Academic year		
	2008/09 (by local authorities)	2009/10 (by the Company)	2010/11 (by the Company)
Applications received	360,800 (100)	385,200 (100)	396,600 (100)
Applications fully processed at start of term	228,000 (63)	176,200 (46)	272,800 (69)
Provisional or interim assessment made	37,200 (10)	76,300 (20)	21,500 (5)
Insufficiently processed to enable any payment at start of term	95,600 (27)	132,700 (34)	100,000 (26)

Sources: C&AG's Report (Figure 8) for 2008/09 and 2009/10 data; Updating Memorandum

4. The Department and the Company told us at the hearing that they were confident the Company would markedly improve its performance in 2010 compared to the previous year, and that the majority of applications would be processed by the start of term.[8] Even where applications were received late and would not be fully processed in time for the start of term, the Company said it would make interim payments (of 75% of the full maintenance loan). This led the Company to conclude that every student ought to start university in 2010 with some financial support, even if they applied late.[9]

5. The Updating Memorandum showed that the Company had, by the start of the first term of the 2010/11 academic year, fully processed 69% of the 396,600 new applications (Figure 1). This means the Company had fully processed more applications, and a higher percentage of applications received, from new students by the start of the first term than achieved either by the Company in 2009 or by local authorities in 2008.[10] For another 5% of applications, the Company had made a provisional or interim assessment, meaning that these students would still be entitled to interim payments. However, 26% of all applications (just over 100,000) had not been processed sufficiently to enable any payment at the start of term.[11]

6. As at 10 October 2010, the Updating Memorandum showed that the average time to process an application from a new student in 2010 was 10.8 weeks. For 2009, the Comptroller and Auditor General found that new applications had taken 12.4 weeks on average, although this measurement was taken at the end of January 2010 (rather than October 2009, which would be directly comparable with October 2010). However, for

8 Qq 10-11, 15

9 Q 141

10 Ev18; C&AG's Report, Figure 8

11 Ev 18

2010, the Company is still slower than local authorities in processing applications from returning students (8.7 weeks compared with 5.6 weeks).[12]

Performance in processing applications for targeted support

7. In addition to student loans and grants, the Government makes a number of targeted support grants available to students with particular additional needs. The largest of these funds is Disabled Students' Allowances, which is intended to help meet the extra course costs students can face as a result of physical or mental disability or specific learning difficulty.[13] By the end of December 2009, the Company had fully processed and made a first payment on less than a quarter (24%) of the 17,000 applications it had received for these Allowances. These applications took the Company on average 20 weeks to process.[14] At the hearing, the Company apologised to those disabled students who had been affected by the delays, and acknowledged that its service last year had been completely unacceptable.[15]

8. At the hearing the Company told us that the service in 2010 should be better, since the number of advisers handling these applications had been more than doubled to 52 in July 2010. It also stressed that those who had performed this role last year now had more experience, had been given enhanced training, and processes had been streamlined. Overall the Company assured us that disabled students would not be as disadvantaged by the system as they had been in 2009.[16]

9. The Company told us that its inexperience in dealing with Disabled Students' Allowances contributed to its problems in processing these applications in 2009.[17] This was despite the fact the Company had, since 2006, been running a pilot programme, in which it took over the student finance processing responsibilities from 11 local authorities. The Comptroller and Auditor General concluded that the Company had failed to design and test the pilot in such a way as to obtain useful lessons for running the full service on a national scale from 2009.[18]

10. According to the Updating Memorandum, as at 8 October 2010 the Company was taking on average 17.8 weeks to process and pay applications from new students for Disabled Students' Allowances. Of the 16,000 applications from new students it had received for the 2010/11 academic year, 5,200 (33%) had been approved, with first payments being made in respect of 3,300 (21%).[19] This was an improvement over the performance in October in the previous two years but a lower proportion than had been processed and paid by the end of December 2009.[20]

12 Ev 18; C&AG's Report, Figure 6

13 C&AG's Report, para 2.17, Appendix 2

14 C&AG's Report, paras 2.18, 2.20

15 Qq 16-17

16 Qq 18-20

17 Q 22

18 C&AG's Report, para 2.2

19 Ev 18

20 C&AG's Report, para 2.18, Ev 18

11. The Company's targets for processing these applications have also been made tougher, with 95% of applications expected to be processed within the target times for two key stages of processing (assessing whether a student is eligible, then assessing the support to which they are entitled). In the period February to December 2009, the Company had achieved 45% (first stage) and 15% (second stage) of applications processed before its then 15-day targets.[21] For both stages, the target was reduced from 15 working days for the 2009-10 financial year to 10 working days for 2010-11.[22] In the year to date, the Company has missed both targets, achieving 80% for the first stage and 92% for the second stage; although in September 2010, the latest month for which there were complete data, this had improved to 100% and 93% respectively.

12. It was impossible to assess the Company's performance in 2009 regarding other forms of targeted support, such as Childcare Grant and Parents' Learning Allowance. While the Department had set targets for processing applications, the Company did not collect the management information that would allow its performance to be assessed against them.[23] For the 2010-11 financial year a new target has been introduced for Childcare Grant (95% of applications to be processed within four weeks of receipt), and the Company is now measuring its performance against it: in September 2010 it was meeting this target in all cases.[24] The Updating Memorandum stated that other forms of targeted support (such as Parents' Learning Allowance) are now included within the six week target for processing main student finance applications.[25]

Performance in handling customer contact

13. The Company runs a contact centre that handles calls from applicants and their sponsors. In the 12 months to the end of January 2010, more than half (56%) of all calls to the Company went unanswered. At its worst, in September 2009, the Company received some 4 million calls (as many as it had received in the whole of the previous year), of which 87% went unanswered.[26] The Company had set a performance target of answering 55% of calls within 60 seconds, which was far behind industry benchmarks. In addition, in measuring its performance, the Company excluded callers who were unable to connect to the queue.[27] In 2009 it also did not assign enough staff to its contact centre to cope with forecast peak demand.[28] Assessing the Company's readiness to cope with peak demand of calls in 2010, PricewaterhouseCoopers suggested the contact centre was still under-resourced, and recommended its peak time staffing be increased by 100 telephonists to meet the predicted volumes.[29]

21 Ev 18; C&AG's Report, Figure 11

22 Ev 18

23 C&AG's Report, para 2.22

24 Ev 18

25 Ev 18

26 C&AG's Report, paras 10, 2.25

27 C&AG's Report, para 2.24

28 Hopkin Review, p 18

29 Independent Health Check Review of Student Finance England, PricewaterhouseCoopers report for the Department for Business, Innovation and Skills and the Student Loans Company, April 2010, p 8

14. The Company apologised to those who had received poor customer service in 2009 and accepted its performance was completely unacceptable.[30] The Company told us it had increased its number of telephonists, added another 600 telephone lines, and improved its system of interactive recorded messages. The Company has also toughened its target and aimed to answer 80% of all calls, and would include those who do not get through in its measure of unanswered calls. The Department told us that the management information it was now receiving presented a more accurate picture of customer service at the contact centre. As at late July 2010, the Company had answered 90% of all calls in the year to date.[31] The Updating Memorandum showed that this performance was maintained through the peak period for calls, with the Company answering 96% of calls in July, August and September.[32] However, the Company's target still falls short of accepted best practice, which is to answer 95% of all calls.[33]

30 Q 15

31 Qq 70-71, Q 121

32 Ev 18

33 Committee of Public Accounts, Twenty-fourth Report of Session 2009-10, *HM Revenue & Customs: Handling telephone enquiries*, HC 389, para 2

2 Management and oversight of the Programme

15. The Department has set a number of targets against which it monitors the Company's performance. In 2009 the main target, covering the processing of applications for maintenance loans and grants, was shown to be flawed. Instead of covering the whole process from application to approval for payment, it measured the time taken to make an "initial decision" on an application. This was despite the recommendation of a report, published in 2006 by the then Department for Education and Skills, that the process be measured in full. In some 52% of cases in 2009, the Company's "initial decisions" were simply requests for applicants to submit further evidence.[34]

16. The Department acknowledged that the target was inadequate. It meant that throughout the summer of 2009 the Department had thought it was getting assurance that applications were being processed when in practice they were only being acknowledged and questions asked by the Company.[35] The Department explained that it had set the Company this target because it mirrored how local authorities' performance had been measured in previous years and would facilitate comparisons between the new service and the old. However, the Department agreed that it had not heeded its earlier report and so had not set the right target, and in consequence had received only a partial picture of the Company's performance.[36] The Company acknowledged that its own failure to understand its poor performance in summer 2009 was in part due to poor management information, but told us that the quality and timeliness of its management information had since greatly improved.[37] The Department was in agreement.[38]

17. In the wake of the Hopkin Review, new targets were in place in mid-February 2010.[39] In its Updating Memorandum, the Department told us that the new targets required the Company to process within six weeks the applications that included full supporting evidence.

18. The immediate cause of the major problems with the service in 2009 was the malfunction of the document scanning system.[40] In procuring the software to run the system, the Company had failed properly to specify its requirements (specifically, the volume at which the system would be used). The Company launched the system before testing it fully. In operation, the system failed to cope with the volume of work and broke down; the Company's contingency plan was introduced late and did not work in the way the Company had expected. The situation was aggravated by the fact that the documents to

34 C&AG's Report, paras 2.9-10

35 Q 121

36 Q 64-69

37 Qq 107-108

38 Q 120; Ev 18

39 Qq 122-125

40 Q 2

be scanned had been sent to the Company's office in Glasgow, while application forms were sent to its processing centre in Darlington.[41]

19. The Company agreed that it could have been relatively cheap to fully test the scanning system before launch, and could not tell us why it had failed to do so.[42] It told us that, with hindsight, it had been wrong to locate scanning and processing in different sites.[43] Following remedial work on the scanning software which the Company had requested from its supplier, the scanning system was relaunched in March 2010. The Company and Department told us it has subsequently been operating satisfactorily.[44] However, the Department stated that the cost of the scanning system had increased by £1.0 million (63%) above its original £1.6 million budget.[45]

20. Other difficulties in the IT elements of the Programme led to delays and increased cost: overall, there was a cost overrun (at December 2009) of £10.5 million (75%) above the business case estimate of £14 million for IT systems.[46] Another of the key planned IT improvements, new contact centre technologies, had still not been implemented as at October 2010. The Updating Memorandum showed this element of the Programme had been budgeted at £4.6 million, but was now forecast to cost £11.0 million, a predicted overspend of £6.4 million (139%).[47]

21. The Company had told the Comptroller and Auditor General that it had taken seven months to implement a change to enable students to reset their own passwords on the student finance website.[48] However, at the hearing the Company told us that it had not yet got this change to work.[49] The failure to resolve this issue in 2009 led to high volumes of calls to the contact centre from students who could not access their application details: in the first half of 2009 this was the single most common reason for calls to the Company.[50] The Updating Memorandum stated that it was now possible for students to reset their online passwords, and that the proportion of calls about this issue had declined since the previous year.[51]

22. The Department expected the centralisation of the service to achieve annual savings of around £20 million from the 2011-12 financial year and that the Company's operating costs would be far less than the grants which the Department had given to local authorities to run the previous service. Cost overruns had challenged the Programme's budget, but at the time of the Report by the Comptroller and Auditor General (March 2010) the

41 C&AG's Report, paras 9, 2.5-2.6; Qq 74-76

42 Qq 82-85

43 Q 74

44 Qq 76, 79; C&AG's Report, para 9; Ev 18; Independent Health Check Review, PricewaterhouseCoopers, p 4

45 C&AG's Report, para 2.4; Ev 18

46 Q 77; C&AG's Report, para 2.4

47 Ev 18

48 C&AG's Report, para 3.12

49 Q 114

50 C&AG's Report, para 3.12

51 Ev 18

Company was making other cost reductions to compensate, expecting its operating costs to be in line with the original business case from 2011-12.[52]

23. At the time of our hearing, the Department told us the timetable for generating savings had slipped by one year, so that the Programme was now not expected to break even and to achieve financial returns until the 2012-13 financial year. The Department told us that, while cost savings were an objective for the Programme, the absolute requirement was to achieve improved customer service, particularly in 2010, and that it would not put customer service at risk by an unyielding pursuit of savings.[53] In October 2010, the Updating Memorandum stated that the Department was still discussing the Company's financial requirements and that the need for additional resources for the 2011/12 academic year and beyond was likely to further delay, and possibly reduce, the expected financial savings.[54]

24. In 2006, reviews commissioned by the Department had identified weaknesses in the Company's management culture and capacity. The Company introduced an organisational development programme, but the programme was incomplete by the time the service went live in 2009, and the Company's own review acknowledged its culture as a contributory factor to its failings in 2009.[55] The Department considered that the Company had been over-optimistic about its ability to resolve any technical problems and as a consequence had failed to alert the Department to escalating risks during 2009.[56] Overall the Department concluded failures in leadership and management in the Company lay behind the poor performance.[57]

25. As late as April 2010 PricewaterhouseCoopers told the Department it was surprised by the lack of focus and urgency within the Company in setting right the problems identified in 2009.[58] In December 2009 the Department had accepted the Chairman of the Company's advice that two directors resign. After receiving the PricewaterhouseCoopers report, ministers decided to invite the resignations of the Company's Chairman and Chief Executive, which were received in May 2010.[59] The Department conceded that with hindsight it might have taken more far-reaching action earlier.[60] Nobody in the Department lost their job as a result, although the performance of the programme was reflected in the appraisal of the officials concerned.[61]

26. At the time of our hearing, the Company's Chairman, Chief Executive, Chief Operating Officer, and Director of Human Resources were all interim appointments. The Company

52 C&AG's Report, paras 3.15-3.16, 3.21; Qq 23-28

53 Qq 23-24

54 Ev 18

55 C&AG's Report, para 3.7

56 Q 40

57 Q 2

58 Independent Health Check Review, PricewaterhouseCoopers, pp 7-8

59 Q 31

60 Q 53

61 Q 112

expected a permanent Chief Executive to be in place by the end of 2010.[62] A new permanent Chairman was subsequently appointed, taking up his post on 1 November 2010; however, the Company has still to recruit a permanent Chief Executive and four permanent executive directors.[63]

27. Centralising the processing of student finance applications was inherently high risk, and the risks attached to the Programme were highlighted at an early stage. The first Office of Government Commerce Gateway Review in March gave it an overall Red rating, while the third Gateway Review (July 2009), gave the Programme an Amber/Green rating, concluding it was well managed, that the programme management was strong, and that it was monitored appropriately by the Department.[64] The Department considered that the OGC's third evaluation had not been fit for purpose in that it did not highlight that risks were not being properly managed.[65] Overall, the Department (together with the Company's Board) had underestimated the challenging nature of the Programme.[66]

28. There were significant problems in 2009 with the effectiveness of the governance structures the Department set up to oversee the Programme. The Programme Board had no expertise in IT, finance or human resources, nor any experience of undertaking a major centralisation project. While greater specific expertise was located in three sub-programme boards, these did not successfully identify emerging risks and escalate awareness of them, either to the Programme Board, the Company's Board, or directly to the Department, in time for effective intervention.[67] The Department considered that the Company was responsible for the failure to inform it of the developing problems in 2009. However, it also accepted responsibility for not supervising the Company more effectively. At the time of our hearing, it informed us that a new Programme Board had been established, with new systems that would improve the Department's capacity to monitor the Company's performance.[68] In the Updating Memorandum, however, the Department informed us that the Programme Board was being closed down, and had been replaced with a revised governance structure.[69]

29. The problems experienced by the Department in managing the performance of the Company are in keeping with problems it has had with a number of its arm's length bodies.[70] In the past two years, for example, we have criticised the Department for similar failings in its oversight of the then Learning and Skills Council, in respect of its delivery of the Train to Gain programme and the capital funding of further education colleges.[71] The

62 Qq 95-96

63 Ev 18

64 C&AG's Report, paras 3.2-3.3 ; Q34

65 Q 47

66 C&AG's Report, para 18

67 C&AG's Report, para 15; Qq 39-42

68 Q 50

69 Ev 18

70 C&AG's Report, para 3.28

71 Committee of Public Accounts, Sixth Report of Session 2009-10, *Train to Gain: Developing the skills of the workforce*, HC 248; and Forty-eighth Report of Session 2008-09, *Renewing the physical infrastructure of English further education colleges*, HC 924

Department has implemented a range of reforms to its processes for managing arm's length bodies, and it told us that the Cabinet Office had concluded it was making good progress in improving its relationship with delivery partners.[72] In March 2010 the Comptroller and Auditor General had concluded it was too early to say what impacts such measures would have.[73]

72 Q 7, Qq 55-56, Q 117, Q 155

73 C&AG's Report, para 3.28

3 Future developments

30. The Programme faces ongoing risks, with the number of applications the Company deals with rising steeply as by 2011 it takes on responsibility for all students in the student finance system.[74] The Department told us it would review options for removing this work from the Company if the service failed again in 2010 but the only real option would be to hand the work back to local authorities; an option it told us it had not examined in detail. The Department further explained that, because of the need to ensure continuity of service and the lead time required to introduce any change of service provider, it was to an extent locked in to its current arrangements. It has sought to improve the service by changing the management arrangements of the Company.[75]

31. The Updating Memorandum drew our attention to two developments which may have implications for the design of the Programme and the role of the Company. The status of the Company is "under consideration", and proposals on how student support is administrated, taking into account the Government's response to the Browne Report, will be developed in a Higher Education White Paper, expected in early 2011.[76] Through the Memorandum, the Department also informed us that in January 2011 there will be a final OGC Gateway Review, which will review the strategic business case for the Programme, and the financial benefits realised to date.[77]

32. A number of the problems experienced by the Company and Department in 2009 are not unique to this particular programme or department. In recent years our predecessors have repeatedly criticised departments for failing to ensure programmes and related IT systems were effectively piloted before the launch of a new national service.[78] Similarly, our predecessors have observed numerous problems encountered by departments in their management of arm's length bodies in the delivery of services and introduction of new systems.[79] We put it to the Department and the Treasury that, where there are generic lessons to be learned from programmes which have experienced difficulties, there ought to be a better process of sharing information about them, not just within the individual department responsible, but across Whitehall. The Department agreed, suggesting that this could involve the National School of Government, and affirming that the permanent secretaries of all departments needed to act collectively to ensure learning was shared throughout Whitehall.[80]

74 C&AG's Report, para 1.2

75 Q 144-147

76 Ev 18; Public bodies reform—proposals for change, Cabinet Office press release, 14 October 2010

77 Ev 18

78 For example: Committee of Public Accounts, Tenth Report of Session 2002-03, *Individual Learning Accounts*, HC 544; Fourteenth Report of Session 2003-4, *Inland Revenue: Tax Credits*, HC 89; Forty-fifth Report of Session 2004-05, *Criminal Records Bureau: delivering safer recruitment?*, HC 453; Fifty-fifth Report of Session 2005-06, *The Delays in Administering the 2005 Single Payment Scheme in England*, HC 893

79 For example: Committee of Public Accounts, Fifty-fifth Report of Session 2005-06, *The Delays in Administering the 2005 Single Payment Scheme in England*, HC 893

80 Qq 160-161

Formal Minutes

Wednesday 1 December 2010

Members present:

Rt Hon Margaret Hodge, in the Chair

Mr Richard Bacon	Matthew Hancock
Dr Stella Creasy	Rt Hon Mrs Anne McGuire
Jackie Doyle Price	Ian Swales

Draft Report (*Customer First Programme: Delivery of Student Finance*), proposed by the Chair, brought up and read.

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

Paragraphs 1 to 32 read and agreed to.

Conclusions and recommendations 1 to 9 read and agreed to.

Resolved, That the Report be the Eighth Report of the Committee to the House.

Ordered, That the Chair 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.

Written evidence was ordered to be reported to the House for printing with the Report.

[Adjourned till Tuesday 7 December at 10.00 am

Witnesses

Tuesday 27 July 2010	*Page*
Simon Fraser, Permanent Secretary**, Michael Hipkins,** Director, Financial Support for Learners, Department for Business, Innovation and Skills and **Ed Lester,** Interim Chief Executive, Student Loans Company	Ev 1

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List of Reports from the Committee during the current Parliament

The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

Session 2010–11

First Report	Support to incapacity benefits claimants through Pathways to Work	HC 404
Second Report	Delivering Mulit-Role Tanker Aircraft Capability	HC 425
Third Report	Tackling inequalities in life expectancy in areas with the worst health and deprivation	HC 470
Fourth Report	Progress with VFM savings and lessons for cost reduction programmes	HC 440
Fifth Report	Increasing Passenger Rail Capacity	HC 471
Sixth Report	Cafcass's response to increased demand for its services	HC 439
Seventh Report	Funding the development of renewable energy technologies	HC 538
Eighth Report	Customer First Programme: Delivery of Student Finance	HC 424

Oral evidence

Taken before the Committee of Public Accounts

on Tuesday 27 July 2010

Members present:

Margaret Hodge, in the Chair

Mr Richard Bacon	Mrs Anne McGuire
Stephen Barclay	Nick Smith
Jackie Doyle-Price	Ian Swales
Chris Heaton-Harris	James Wharton

Mr Amayas Morse, Ms Gabrielle Cohen, Assistant Auditor General, and **Ms Janice Lawler**, Director, National Audit Office, gave evidence.

Mr Marius Gallaher, Second Treasury Officer of Accounts, HM Treasury, gave evidence.

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL

THE CUSTOMER FIRST PROGRAMME: DELIVERY OF STUDENT FINANCE (HC 296)

Witnesses: **Mr Simon Fraser**, Permanent Secretary, Department for Business, Innovation and Skills, **Mr Michael Hipkins**, Director, Financial Support for Learners, Department for Business, Innovation and Skills, and **Mr Ed Lester**, Interim Chief Executive, Student Loans Company, gave evidence.

Q1 Chair: Welcome. Thank you very much indeed. I know it has been difficult for you to appear and give evidence and we have not given you lots of notice, so I am deeply grateful to you for doing that. As I understand it, you are moving on, Simon.

Mr Fraser: Yes.

Q2 Chair: I hope you can be really honest and open with us so that we can learn the lessons of what was probably not the world's best implementation programme and ensure that it does not happen in the future, but thank you to all of you again. I should say publicly that I worked with Mike in education some 10 years ago now, so it is nice to see you again. This was a disaster. If you look back at what happened in 2009, by the beginning of term we had only had about half of students getting their grants. What have you learned from that? Rather depressingly, you have had three Reports on this. You have had the National Audit Office Report, you have had the Hopkin Review and you have had the PWC Review as late as April. PWC feel that you have still got "a surprising lack of focus and urgency", so what have you learned and are you now dealing with the issues in a focused and urgent way?

Mr Fraser: Thank you very much. I absolutely agree that the service provided last summer was inadequate. Ministers have apologised for that, the SLC has apologised and I associate myself with that. The immediate cause of the failure last summer was the malfunction of the scanning system which meant that there was an unexpected backlog in applications which led to overwhelming demand on the customer call centre, which in turn meant that there was a failure of processing and of customer service, and that is obviously unacceptable. What has also become clear in terms of lessons learned is that behind this, as we have gone through an investigation of the causes, lay failures in leadership and management and control in the company and I also recognise that the department was not sufficiently rigorous in its monitoring and supervision function, certainly in the early part of the last year. We fell short in that and I accept the criticism in the Report in that sense. In terms of what we have learned, we have now understood more deeply what the problems are, and certainly in recent months I am confident that the department and the company have really gripped this in a much more decisive and, if I may say so, intrusive way so that we have done what we can to ensure that the service delivered this summer is much better.

Q3 Chair: So why did we get Pricewaterhouse in April, not that long ago, saying "a surprising lack of focus and urgency"?

Mr Fraser: Pricewaterhouse was asked to do that Report by the department because the Hopkin Report, which was completed in December, made a number of general recommendations for the company to implement. The chair of the board in December undertook that the company would implement that and the department engaged with the company over January in a series of workshops to assist with that implementation. In mid February I became concerned that that implementation was not taking place effectively and the department at that point pressed the company into appointing a new chief operating officer, which it did, but because we were concerned that the implementation was not being put in place effectively we asked PricewaterhouseCoopers to go in and give us an independent verification in much more detail about the operating requirements which were necessary to achieve success, and on the back of that Report, which identified a lack of focus and attention, we made a number of decisions about bringing in new staff, and indeed it led to the departure of the chair and the chief executive.

Q4 Chair: When did they go?
Mr Fraser: They eventually left in May. The reason for the gap was partly that we were in the purdah period before the election and it was difficult to make decisions in that period, so there was a bit of a problem there.

Q5 Chair: But you could have taken the decision before purdah?
Mr Fraser: The Report from PWC was not produced till April so we were into purdah by that time.

Q6 Chair: Just let me say this about BIS because we were not around. I think Richard was the only one who was around at the time. We were reminded that this is probably your fifth or sixth appearance in a very short period as Permanent Secretary in BIS. You have had to deal with this fiasco, the Train to Gain fiasco, the FE capital programme fiasco and then two other things which were less critical, which were venture capital and consumer indebtedness, but what I know and we all know from Train to Gain and the FE capital programme is that there was a very similar lack of oversight by guys in BIS as well as weaknesses within the organisations with responsibility for implementing programmes.
Mr Fraser: It is true that I have appeared before the Committee on a number of occasions. I have not appeared before the Committee on FE capital but I have on a number of other issues. I would not describe any of them necessarily as a fiasco but there were some serious issues. Of course, BIS has large budgets and operates through a number of non-departmental bodies. We have over 70 associated with the department.

Q7 Chair: That is why we would have thought you would have had the experience and knowledge of how to monitor effectively so that it is not a student moaning about not getting their grant that is the first indication you have of things going wrong.
Mr Fraser: Of course, BIS was put together as a department by the merger of BERR and DIUS in June 2009. I was appointed Permanent Secretary in May of that year. What became clear to me very rapidly in July of last year was that the culture of supervision of some of these bodies was perhaps not as rigorous as it should be. I was immediately hit with the aftermath of the FE capital problem and I instituted last July in BIS a review of the way we handle all relationships with partner bodies by my Director of Strategy in order to address these issues. It contained a number of recommendations, which I am happy to go into the detail of, all of which have now been addressed, so I think we have introduced in BIS as opposed to what we call its legacy departments, predecessor departments, a much more rigorous, much more focused culture of sponsorship management of those relationships. Indeed, we had a capability review conducted by the Cabinet Office in March, at the end of which in his report the Cabinet Secretary said, "You have made good progress in improving relationships with delivery partners by increasing clarity about roles and responsibilities and the positive foundations laid by a new risk-based delivery partner management framework".

Q8 Chair: But that was March, with respect, and then in April we get the PWC Report. It may be suggesting that you were not there, and that is late. This fiasco was last year. That is late. By April you should be well into preparations for this year.
Mr Fraser: With hindsight I would say that after the Hopkin Report in December and the commitment of the company to implement that Report there was a period between December and February when progress was not sufficiently rapid and the company did not respond fast enough. I would accept that the department at that point should have been quicker to pick that up and we lost some time because of that. I therefore agree with you that we should have been quicker to pick up that the problems were not being resolved fast enough, but I would repeat that PWC was brought in by us in order to help us deal with those problems.

Q9 Chair: Given how late everything has happened, so PWC in April, you changed personnel in May, you have got interim people floating around the system, are you confident that this year you will be able to provide a good service to students applying for loans? Are you confident about that?
Mr Fraser: I think there is every reason to expect that the service this year will be much better than last year. I cannot say that all risk has been removed from the system because there obviously are risks—

Q10 Chair: Are you confident?
Mr Fraser: I am confident that there will be a better service this year. I think we have taken very significant steps in recent months to ensure that.

Q11 Chair: What does "better" mean?
Mr Fraser: Mr Lester is responsible for the delivery of the service so, with your permission, I will ask him to comment on that.
Mr Lester: We have made a great many changes from last year and, to answer the question, I would answer it in a very similar way to Mr Fraser, and that is that we are much more confident that we will produce a better result than we did last year. In fact, we are further on than we were last year.

Q12 Chair: You were so confident last year that nobody worried until a student wrote a letter.
Mr Lester: A lot of things have changed. Would it be helpful if I gave the Committee an idea of where we are in terms of applications that we are expecting to receive? Would that be helpful?

Q13 Chair: Yes.
Mr Lester: Just so that we get a picture of where we are, we are expecting that there will be about 860,000 applications this year. That is made up of newcomers and returners and we think that probably about 87,000 of those will apply after the start of term. That leaves a figure of around 773,000 that we are looking to process. Thus far we have received 603,000, which is about 78% of all those applications that we are expecting to receive before the end of term, and we have processed 433,000 of those, which is 56%.

Q14 Chair: What do you mean by "processed"?
Mr Lester: "Processed" is split into three sub-categories. We have had signatures from students on 316,000 applications. We are just awaiting that signature on 104,000, and of that 433,000 13,000 were considered ineligible. The signature means that the student is accepting the terms and conditions of the loan, so it is right at the end of the process. In addition to that we have got 119,000 that we are working on, and work in progress, which is applications that have just come in, is round about 52,000. That is where we are. If one looks at where we were through the NAO Report, at the start of term we had processed 46% of all applications, so, whilst that is not a very encouraging measure, it is nevertheless a measure, so with two months still to go we already have 56% processed. This year is definitely different from last year because at this time last year we were in the middle of a chaotic situation with the scanning and clearly we are not in that place now.

Q15 James Wharton: Mr Lester, perhaps I can direct my questions primarily at you because they are more operational and I think it leads in quite well from looking forward to where you hope you are going to be this year, because I want to talk about the student experience last time, which obviously is of great concern because the reputation of the process and the confidence that students had in the process were severely damaged by the experience they had. One of the areas within that that I particularly want to focus on is the contact centre and students wanting to call in to get an update and find out where things are and how things are going. Looking at the detail in the Report, from February to January the company answered just 44% of calls but, even more damning than that, during September, when things were at their worst, only 13% of calls were getting answered. Why did the company manage customer communications so badly during that period?
Mr Lester: I think it was as a consequence of the scanning problem. The situation was that because the scanning had broken the processing was not possible and the screens that would typically be in front of a call handler giving the detailed information of a particular application were not available and so therefore there was a situation where all that the call handlers could do in the absence of information was say, "I am really sorry but we do not have that information". That in itself creates anxiety. Just to give you an example of how bad things became, in September, which was the worst month of 2009 for us, we received four million calls and in one week of that we received 1.5 million calls from 200,000 callers, which means that each caller was calling at least seven times, which is totally and completely unacceptable and I would like to add my personal apologies to the students who found our service absolutely unacceptable.

Q16 Mrs McGuire: Could I pick up on the experience of disabled students? As currently the Chair of the All Party Group on Disability and a previous Minister for Disabled People, I am absolutely appalled at the experience that disabled students went through. Given the fact that by your own statistics 46% of applications had been fully processed at the beginning of term, if you look at the experience of disabled students, by the end of December only around 25% of disabled students had had their applications processed. Why were disabled students so badly treated in a system where all students were not well treated? Frankly, I think you are lucky that you did not run counter to some of the conditions of the Disability Discrimination Act in the way that disabled students seemed to be so badly disadvantaged even within a context of mismanagement. Have you any explanation for it?
Mr Lester: I do have an explanation and, again, first of all an apology to those disabled students that were affected in that way. They were also caught up in the scanning situation, and I will come on to how we are going to change things.

Q17 Mrs McGuire: But they were disproportionately more caught up in the scanning problem, if you follow my logic.
Mr Lester: Yes, they were, but also the flow of disabled applications is different from that of the core applications. They occur throughout the year and the peak for disabled applications is in October and November. There is a little bit of a trail-off and then it peaks again in February and March. Part of the reason for that is that the students go to university and for some of them they realise that they are eligible for grants that they hitherto had not been aware of and so they apply and there is therefore a different application process for disabled people. First of all, I acknowledge that last year was totally and completely unacceptable. We have changed things this year, and would it be helpful for me to give you an idea of how things have changed?

Q18 Mrs McGuire: In terms of disabled students?
Mr Lester: Yes, specifically disabled students. Last year we had just 20 advisers who were inexperienced and as a consequence of that the service was poor. Those same advisers clearly have a year's more experience and more knowledge and we have more than doubled the number of advisers that we have on the DSA, so instead of around 20 we now have 52 advisers.

Q19 Chair: But you will have two years' worth of students.

Mr Lester: And we have two years' worth of students, I accept that, but we have more than doubled the numbers. The training for DSA advisers is much more rigorous and robust than for the core. For the core it is four weeks' training for an assessor. For a DSA adviser it is another two weeks, so there are six weeks in terms of training for these advisers. We have also listened to the complaints of last year and we have streamlined the processes and simplified the messaging. There was a lot of concern about the messaging being very complex and unintelligible and so we have attempted to sort that too. Very importantly, having worked with disabled folk for nine years in a previous job, we have implemented training for our advisers. It is very easy to look upon an application as just a name or a number. We have had the National Association of Disability Practitioners give the advisers a workshop and had disabled students explaining why their needs are so special. We have also had PATOSS, which I think stands for the Professional Association of Teachers for Students with Special Needs[1], give us a workshop and we are planning to have a workshop with the needs assessment centres. All of that has meant that our advisers have a great deal more understanding of disability and also a great deal more empathy with disabled students. I was with them just last week and I asked them the question, "Did that make any difference?", and they all resoundingly said, "Yes, it did".

Q20 Mrs McGuire: So I have your assurance that disabled students, in the new world that we are hearing described here this morning, will certainly not be as disadvantaged as they were last year, because they were disadvantaged within a system that disadvantaged students?
Mr Lester: No, I can see that, and I can give you that assurance because I think it is important that we also understand that, whereas last year our service targets were four weeks in the main (there is a number of stages in the DSA and each of those required a four-week turnaround), we have now halved that to two weeks and so each of the various processes that a disabled student goes through, and I can explain that to you if you wish—

Q21 Mrs McGuire: No.
Mr Lester: Fine, so the service is that much better and we are hitting those targets.

Q22 Chair: Last year were you driven by cost considerations rather than service considerations?***Mr Lester:*** It is difficult for me to say accurately but I think it was because we were inexperienced in dealing with the processes that we were being asked to deal with, and this year clearly we are more familiar and there are a lot of scars on the individuals who were involved in that.

[1] Note by witness: The correct title for this organisation is the "Professional Association of Teachers of Students with Specific Learning Difficulties".

Q23 Chair: When this new system was set up it was supposed to deliver £20 million savings in the first year. Is that a driving objective of the administration of the system this year, the savings? How much are you driven by cost as opposed to service? What is the priority?
Mr Fraser: Of course, the programme was designed to be value for money and to find savings of £20 million a year. The NAO Report argued there that was a good rationale for that, so that is an objective of the programme, but, of course, we have to balance that against the absolute requirement, particularly this year, to achieve much better customer service, so we are not going to sacrifice customer service for the unyielding pursuit of savings.

Q24 Chair: And that is accepted by ministers in the department seeking cuts?
Mr Fraser: We have accepted that there will be a delay now, as a result of the additional resources we have put in in the last year, of one year in this programme breaking even and beginning to achieve returns, so, whereas it was expected to happen in 2011/2012, I understand we now expect it to happen in 2012/2013.

Q25 Chris Heaton-Harris: Just following on from that, there are no savings this year at all? There is a cost?
Mr Fraser: Can I ask Mike Hipkins to answer because he is much closer to the action?
Mr Hipkins: The savings that will emerge from the Customer First programme are phased as the investment going in comes to a close and the savings come in at the end, so the savings in the steady state are expected to be slightly over £20 million a year. We are not yet at that stage.

Q26 Chair: But there is a cost? You have put extra money into the company?
Mr Hipkins: Yes. The investment overall for the Customer First programme has been £41 million over seven years. You asked, Chairman, about whether or not the company had enough money in 2009–10. We agreed their budget with them at the start of 2009–10 and made available an extra £6.8 million to reflect the increased number of students that there were above the plans that we had drawn up in 2007, and also a higher proportion of students who were means tested, and because the processing is more costly it reflected that too.

Q27 Chair: So it was not resources; it was inefficiency, poor management?
Mr Hipkins: As Mr Lester said, there was inexperience in the company and in scaling up, and in particular the scanning was at the root of this.

Q28 Chris Heaton-Harris: So, on a line where we are saving money, how close to projection are we at this point in time?
Mr Hipkins: We are pretty close at the moment. The additional investment this year, as Mr Fraser said, will push back the achievement of the savings by about one year.

Q29 Nick Smith: Mr Lester, what were your first thoughts when you walked through the door of this organisation you had inherited?
Mr Lester: I thought it was going to be a challenge and I have to say I had not expected to appear before yourselves so soon. A challenge is how I would describe it, and actually an exciting challenge, genuinely so.

Q30 Chris Heaton-Harris: Was there a change in management throughout this year then? I know you have got a change in ethos. If I were a student in that position, and I might know one, who was affected by this who is one of that number that might well have fallen out of education because they did not have the most wonderful experience of using the company last year, I would probably be looking at the company and thinking, "Who is taking responsibility for this really? Who is taking the ultimate responsibility for this?". Have any heads rolled? Have people been moved aside? What have been the management changes that are now enabling you to drive through the changes that you are bringing in?
Mr Lester: Are you addressing me?

Q31 Chris Heaton-Harris: Yes.
Mr Fraser: Probably I should come in on that. The answer is yes. What happened was that as a result of the report by Professor Hopkin two directors of the company resigned in December. They were those responsible for IT and communications which were at the heart of the problems last summer. In addition to that further changes have been made, new directors have been recruited, a chief operating officer has been brought in, and, as the Chairman said, in May a decision was taken by ministers, in the light of unsatisfactory progress in implementing the Report, to invite the chair of the board to resign, which he did, and also to invite him, because this is his power in relation to the company, to invite the chief executive officer to resign, which he did, so the chair of the board and the chief executive officer both resigned and have both been replaced by interim chair and interim chief executive officer, so there has been a change of management throughout the organisation at executive level and a change in the board.

Q32 Chris Heaton-Harris: Who is overseeing that?
Mr Fraser: In addition to that new non-executive directors have been brought on to the board to strengthen the board's supervision of the company, and the board oversees the company.

Q33 Chris Heaton-Harris: And in BIS itself?
Mr Fraser: In BIS itself officials have been following this very closely. We have a monitoring and surveillance responsibility which I agree—

Q34 Chris Heaton-Harris: I would have expected you to say that this time last year, to be frank. I would have expected BIS to be monitoring such a big scheme at the time.
Mr Fraser: We were monitoring it this time last year. One of the interesting issues is that the evidence did not become available until the very end of August. In July last year the Office of Government Commerce conducted a gateway a review for us, because that is how we do this independent monitoring of the programme, and that review gave it an amber/green mark and said that the programme was well managed and monitored appropriately by BIS and that the programme management was strong.

Q35 Chris Heaton-Harris: What was the date of that?
Mr Fraser: That was in July 2009.

Q36 Chair: That is extraordinary.
Mr Fraser: In other words, one of the issues has been that information has not been escalated by the company either to OGC or to the department, or, indeed, to its own board, and that was a serious problem.

Q37 Mrs McGuire: Can I ask for a definition of "escalated"? Is that a euphemism for hidden from the OGC and from the department?
Mr Fraser: Proper management, and particularly risk management, would require the leadership of an organisation, if there is a problem, to escalate it, to report it, to make it available, to share that information with its supervising board, and, indeed, with its supervising department.

Q38 Mrs McGuire: So there was a level at which the information was withheld?
Mr Fraser: In this case this did not happen. Information was not made available.

Q39 Ian Swales: Can I just pick up the point that is made in the Report that says that the programme board had no real human resource, IT or finance or centralisation project experience? That seems unbelievable for a project of this nature, and you were saying that you felt that governance, when judged a year ago, was okay. That seems completely out of line with what is said in the Report.
Mr Fraser: I was quoting from the OGC gateway review. May I ask Mr Hipkins to comment on the nature of the programme board because there was a programme board and there were sub-boards in which all that expertise was available?
Mr Hipkins: The programme management was, I think, a pretty standard arrangement for Customer First. There was a programme board chaired by the department and then underneath that there were three sub-programme boards, one of which dealt with the things that the department had to change: that was chaired by us; one of which dealt with the things the SLC had to change and that was chaired by the SLC; and then there was one that concerned payments and that was the joint one by the SLC and Her Majesty's Revenue & Customs and the department as well. The IT and the HR expertise were on the sub-programme boards.

Q40 Ian Swales: But the overall programme board would not necessarily know what to monitor or what questions to ask and so on if it did not have any of that kind of experience or expertise itself. How did that work in terms of the overall board and the three sub-boards?
Mr Hipkins: The programme board had overall control of the programme, and within the sub-programme boards, and it was all set out very clearly in the arrangements for this, each sub-programme board should look at risk. There was a definition of risk and how the risk should be identified and managed and escalated. What we found over the period was that risks were not escalated because there was a confidence in the company that those risks could be managed. There is something about the SLC as an organisation, in my view, which is that it views itself as very competent on the technical side, so if the scanning is not quite going right there is an expectation that they will be able to put it right rather than escalating the risk to say it might not go right.
Chris Heaton-Harris: There are lots of elements in this, are there not, and the Report on page 29 lists them very kindly for us: "The Programme is inherently high risk because it involves: centralising a service provided by around 130 local authorities with a large number of inexperienced customers; challenging and cyclical work, governed by complex regulations; some new IT and business processes; and mostly new staff working under new management." I am struggling with the concept that you were quite comfortable with this in the centre a year ago today.

Q41 Ian Swales: Would you have organised that governance role any differently with hindsight? Would you have done something different? In other words, what is the learning from that experience, a programme board and three sub-boards, how it worked, because Chris is absolutely right?
Mr Hipkins: I think the structure of the programme board and the three sub-programme boards is sound and it was certainly not mentioned by the OGC in the three reviews that it undertook that that structure was not sound.

Q42 Nick Smith: Can I come in on that point? I just do not understand why you can say it was sound and you say you have got overall control if in July of last year the facts are that there were serious problems in processing applications and the OGC Report, which you have quoted, was completely erroneous. No-one had a grip last July and August.
Mr Hipkins: What I was going to go on to say was that what I would change in the programme structure was to make sure that it worked in the way that it was intended to and in particular that risks were properly identified and managed and escalated. In my view that is the thing that really went wrong last year.

Q43 Mr Bacon: What you are saying is that there was a perfectly good rule book but it was not followed. Is that what you are saying?
Mr Fraser: I think what we are saying—
Mr Bacon: Sorry; I am asking Mr Hipkins what he is saying, if you do not mind. Are you saying there was a perfectly good rule book—I was astonished like Mr Smith. You said it was all perfectly sound. It sounds to me like the OGC's reviews were not fit for purpose. Do you think they were fit for purpose?

Q44 Nick Smith: Absolutely.
Mr Hipkins: I think the OGC uses its methodology and—

Q45 Mr Bacon: No, no, forgive me: I am not asking you, "Mr Hipkins, does the OGC use its methodology?" I would be surprised if the answer to that were not "Yes". My question was, "Do you think the OGC's evaluation was fit for purpose?" Yes or no?
Mr Hipkins: I think in the description of the programme board structure the OGC said it was sound and I think that we would—

Q46 Mr Bacon: I know, I know. That is not what I am asking you. My question is, do you think the OGC's evaluation was fit for purpose?
Mr Hipkins: I think in terms of the overall structure of the programme, yes, it was. I think in terms of looking at the outcomes, clearly—

Q47 Mr Bacon: Mr Smith has made the point. The OGC said it was okay, and Mr Fraser has already said you relied on that, and it was not okay, so my question again, for the third time, is, do you think the OGC's evaluation was fit for purpose?
Mr Hipkins: Given that it did not show the risks that were not being managed properly, no, it was not.
Mr Bacon: Thank you.

Q48 Chair: There is a whole lot of people desperate to get in, and can I bring in the C&AG?
Ms Lawler: Just to clarify a bit the reference here to the July 2009 review, it was more forward-looking. It was looking more at being a delivery in 2010/2011 rather than in 2009.

Q49 Chair: The OGC was looking at 2010/2011?[2]
Ms Lawler: Yes.

Q50 Stephen Barclay: Mr Fraser, can I come back to a couple of things you said? You just remarked that the information was not escalated, as if in essence that that was not your fault; it was the fault of the company, and yet you said earlier, "I am confident that in the last few months the department has really gripped this". Given that you became aware in August that there was a problem, why did it take so long for the department to get a grip?
Mr Fraser: On the question about escalation, my position on that is that the company was responsible for failure to make the information available last

[2] Note by witness: The 18 June 2009 report of OGC Gateway Review for the programme gave a rating of green/amber. The review team considered the delivery of the service and overall management of the programme, focussing mainly on preparations for the service to be delivered for AY2010/11.

summer but I also accept that the department was responsible because it did not probe effectively in its supervisory capacity the management of the company, so I accept there is a shared responsibility there. By the way, on the programme board a new system has now been put in place with a new programme board chaired by the COO of the company, so the old programme board structure is being phased out now that we have got a new system in place, so we are tightening, I hope, our capacity to monitor and survey it. Your question was why did it take so long for the information to become available. What happened last summer was a problem of process and customer service, a management problem in the SLC. We commissioned Professor Hopkin to examine the reasons for that in October and he reported in December. What became clear to me from his Report was that, while there were those sorts of process management problems, there were deeper issues about the culture and leadership and, indeed, board supervision of the company, and so there was a further range of things which we needed to address following the Hopkin Report. That is what we sought to address in January. That is what was not in my view and in the view of PWC adequately gripped, which led us then to take a much more far-reaching and intrusive position in relation to the company and to seek the management changes which took place.

Q51 Stephen Barclay: So what sort of date would you say from which you were happy that you had had the communications right between the department and the company?
Mr Fraser: I believe that the communications between the department and the company were not right during the period of the previous chair and CEO being in office, and have improved dramatically and the relationship between the company and the department is now highly collaborative and in my view very open.

Q52 Stephen Barclay: So date-wise are we saying May?
Mr Fraser: From May, certainly.

Q53 Chair: The depressing thing from what you are telling us is that time was lost between Christmas and the election, and the figures do look better and I think we welcome that, but you should have acted more swiftly between Christmas and the end of March.
Mr Fraser: I absolutely agree with that. At the time in December when we were considering what action we should take we were balancing two things, which were the need to make change with the need to avoid destabilising the company, which was quite fragile, in its work to get it better this year. We balanced those things and we took a decision on the advice of the chair of the SLC board that he should seek the resignation of two of the directors but not the chief executive officer, and we acted on that advice. I have to say with hindsight I agree with you: it would have been more appropriate at that stage to take more far-reaching action and therefore a couple of months were lost before we really got to that point.

Q54 Stephen Barclay: You just commented that you agreed with the Chairman that there was a delay in the communications between Christmas and May and getting the communications right between the department and the company. In an interview you gave on 25 November 2009 you are quoted as saying, "One of the lessons we have learned is that it is really important to get the communications right", but clearly that lesson had not been learned because there was a further six months' delay.
Mr Fraser: I am not sure which interview you are referring to.

Q55 Stephen Barclay: This is one provided by the House of Commons Library last night which was the interview you gave with *Civil Service Live*. It was the one in which you were described as the new generation Permanent Secretary.
Mr Fraser: I could not comment on that. I think there is a more general point I was making, by which I absolutely stand and I referred to earlier, that I felt when I came to this department and when BIS was put together that the communications between the department and the non-departmental public bodies associated with that department needed to be very clear. There has to be a collaborative relationship and there has to be clarity in the mechanisms by which that relationship is conducted. As I have said, I have instituted in BIS a range of reforms to achieve that, which I am quite happy to talk about. In the case of this particular company there was a problem about the non-provision of information, not only to the department but also to the company's board, and, as I agreed with the Chair, in retrospect we should have acted more decisively in terms of dealing with the cause of that problem, which I believe was largely associated with the chief executive officer.

Q56 Stephen Barclay: In terms of whether these lessons have been learned, when you appeared before the Business, Innovation and Skills Committee in October last year you said that one of the things that keeps you awake at night was the fact that this is a very big central department with 71 partner organisations. Can you give the Committee confidence that the lessons around communications have been learned with those 71 partner organisations, or is it likely that the Committee is going to have further hearings in due course?
Mr Fraser: What I have done since last summer in that regard is institute a new sponsorship advisory board in my department, which was established last September and meets monthly, which convenes all the sponsor teams in the department that deal with all the individual organisations. I have instituted a regular series of conferences between the department and all the CEOs of those organisations. Indeed, there is one at lunchtime today which I will be attending after this meeting. I have introduced a new risk management process in the BIS management board, which meets monthly, in which we look at top

risks across the partner organisations, as we call them, after a system of analysing those which is conducted by my Director of Finance and a team of directors, so that happens every month.

Q57 Mr Bacon: Can I just interrupt you on that? Is that so that you can sign the statement of internal control?
Mr Fraser: That is in order to ensure that we are exercising our responsibilities in relation to those departments appropriately.

Q58 Mr Bacon: How was this risk managed before?
Mr Fraser: The risk has always been managed within the individual sponsorship teams. For example, Mr Hipkins has a risk register in relation to SLC and other bodies he deals with. I have brought that together at the departmental level so that—

Q59 Mr Bacon: And the Permanent Secretary as the Accounting Officer has for years been responsible for being able to attest that all the risks are under control. How was that done before you introduced this new system, was my question.
Mr Fraser: I cannot speak on behalf of my predecessors.

Q60 Mr Bacon: I am not asking you to speak on behalf of your predecessors. I am asking you to speak on behalf of the department. How was that process of bringing it together done so that the Accounting Officer had an overview before you instituted the system you have just described?
Mr Fraser: In BIS the process I have described is the one I have introduced, and BIS was created last June. In the previous departments there were management boards which monitored the risks and relationships, and the permanent secretaries satisfied themselves according to the systems that were in place.

Q61 Nick Smith: Mr Fraser, when you introduced the Report just now you said the service was not adequate. Mr Lester said when he walked through the door he found it all a bit of a challenge, but clearly this was an operational disaster last summer and autumn. In terms of communication, would a bit of plain speaking about the situation you inherited not have been helpful here?
Mr Lester: Is that addressed to me?

Q62 Nick Smith: Yes.
Mr Lester: It was. It was made very clear in terms of the sort of challenge that I was facing and I was also given access to all of the reports, so I knew absolutely what had transpired in the previous year and what was expected for this year, so, yes, I had a good understanding of both last year and what was expected from this year.

Q63 Chair: What I find a bit gobsmacking is that in the NAO Report on page 22 there are two little tables, which are quite simple, that tell you where you are. Am I to understand that that sort of information was not available either to the board itself or to the department last year, that simple table?
Mr Hipkins: The information that was available last year was of this kind here but I think it is important that the NAO Report indicates earlier on that the measurement of when an application was processed only went over part of the process. It did not go over the entire process.

Q64 Chair: So they were a little economical with the truth? Is that what they told you?
Mr Hipkins: It was a partial picture, I think.

Q65 Stephen Barclay: But that was the department's target that was set.
Mr Hipkins: Yes.

Q66 Stephen Barclay: That was not the company's error. The company was meeting an inaccurate target set by yourselves.
Mr Hipkins: That is right, and we set that target because it was comparable with the target that was set for local authorities previously so we had some comparability, but in hindsight it was clearly not the right target.

Q67 Stephen Barclay: But are there not earlier Reports? Was there not a Report in 2006 that warned of the dangers of setting targets based on initial completions, not full completions?
Mr Hipkins: Yes, that is right, and there was a balance between getting a target that was comparable with the previous year and a target that, as we now see, would have given a better reflection and would have indicated some of the processing difficulties earlier.

Q68 Stephen Barclay: So there was an earlier Report that warned about this risk, that flagged up that this error that had been made before, but your department then went and repeated again?
Mr Hipkins: I think the target that we set was not the right target in 2009/2010.

Q69 Stephen Barclay: Is that a yes?
Mr Hipkins: Yes.

Q70 Jackie Doyle-Price: Mr Lester, I would like to direct my questions to you because I am still worried about what service the students who are your customers are going to receive in the coming months. Although you have been quite frank about how things were not good enough in the past, I am just looking at the table on page 27, which shows the number of unanswered calls by month, and we see that in January of this year we were still getting 20% of calls unanswered. Bearing in mind that January would not be your peak time for traffic, could you perhaps give us some assurance as to whether you have made any improvements on that figure since and will in the coming months so that you anticipate being able to deal with that traffic?

Mr Lester: Yes, I can. In terms of calls answered, our target is to answer 80% of all calls received. As of last week the year to date figure is 89.7%. We also set ourselves some internal targets which were used last year but which are not targets at all now; they are just internal measures, about answering 55% of calls in 60 seconds, and the latest figure I have on a year-to-date basis is that we are answering 71.6%. It is worth saying that that includes what is called IVR, which is integrated voice recognition[3]. If you take that out, because some calls answer themselves by this IVR, it falls down to 61.4%, but it is still better than the internal measure that we set ourselves, and the abandonment rate is currently running at about 9% or 10%. When I talk about the abandonment rate I am taking absolutely the worst position, so that is calls unanswered, and an unanswered call is when you get through and someone says, "I am sorry; all our operators are busy now", or you get a busy tone. That is all of those unanswered calls plus blocked calls, so we pick up every single call that cannot get satisfied and, as I say, the figure is round about 9% or 10%, so it is in a different place from where it was last year and getting better.

Q71 Ian Swales: Pricewaterhouse said you should recruit another 100 people in your contact centre in their report. Have you done that?
Mr Lester: What we have done is that at the peak last year we had 414 people on the telephones. We now have employed another 300 temporary telephonists and we have allocated those to our outsource provider, so 410 people are now answering phones in our outsourced agent Response, we have 250 people in Darlington and Glasgow answering phones about 50/50, and we have also got 55 telephonists who can be applied at peak if we need to do that. In addition, what we have done is multi-skilled our staff so that assessors can answer phones and to a degree telephonists can answer some of the simpler questions that might come from an assessment, so, yes, we have increased the numbers of people. We have also added 600 telephone lines, which is a tremendous increase in the capacity and, as I said previously, we have also upgraded our integrated voice recognition[4], the IVR, and that has proved a huge boon to people phoning. We have got someone who is responsible for it and who changes the message on a daily basis so it is a very different place from the situation we had last year.

Q72 Chair: You are in Darlington. I do not know what the history is of why you ended up in Darlington and Glasgow, but that clearly created problems of itself last year in that documents presumably were sent to Glasgow and should have been dealt with in Darlington.
Mr Lester: Yes.

Q73 Chair: What is the history? It is probably not for you to answer, but why did you end up splitting the operation?

Mr Hipkins: The history is that when the company was poised to expand and centralise they had already got a small outfit in Darlington because we transferred to the company the processing of European Union applications for fee loans first and so that was the kernel of that centre, and then the company took a decision to expand in Darlington given the availability of the workforce.

Q74 Chair: Does that create problems for you now?
Mr Lester: No. It did create problems. Last year that was fundamental, in which you had the scanning in Glasgow and the processing in Darlington, which in hindsight does not appear terribly smart.

Q75 Mrs McGuire: If your scanning system had worked it would have been fine. I have in my constituency Prudential Insurance which scans everything going in and works across the world, so it is not the distance.
Mr Lester: No, I am not suggesting that. All I am saying is that it is bound to work better if you have the scanning as part of the process so you have got it all together so that if you were to walk around you could pin yourself to a piece of paper and wander through the entire process, and that just makes more sense.

Q76 Mrs McGuire: If you had people working with a quill pen it would be easier because then it would be slow enough for everybody to catch up. I just think that the geography in some ways is a bit irrelevant because if the processes are right it does not matter where you are based.
Mr Lester: No, it does not matter. I was just trying to point out that last year it was a huge problem. This year it is not a problem.
Mr Fraser: It mattered when it went wrong, is the point, because we had to resort to paper.

Q77 Mr Bacon: Mr Lester, I am going start with the scanning because plainly it was not specified properly in the first place. The Report says that the IT system, which included the scanning, was supposed to cost £14 million. It has ended up costing £10.5 million more than that, so £24 million, and it says in paragraph 2.4, "The solution is not currently operational". What is that referring to? Which solution is it that is not being used?
Mr Lester: It is a new process, so what we did was—

Q78 Mr Bacon: I am sorry; what is the solution that is not being used that is referred to here?
Mr Lester: I do not know.

Q79 Mr Bacon: Can the NAO clarify that? This is paragraph 2.4, page 16. It says, "The specification for the contact centre technologies has significantly altered since the business case was developed and the solution is not currently operational". Is that the old solution that was dumped or is it a new solution that is not yet in effect or what?
Mr Lester: Would you give me an opportunity to expand on that? The scanning that went wrong was not the hardware; it was the software, which is

[3] *Note by witness*: "IVR" stands for "Interactive Voice Recognition".
[4] Note by witness: Ibid.

Workflow, so it was the software that went wrong. It was not volume tested and so therefore when it was used at volume it broke and screens froze and screens took four or five minutes to come up. What was done was that we worked with the company to re-establish an appropriate scanning software solution.

Q80 Mr Bacon: When you say "the company" you mean the software supplier?
Mr Lester: Yes, so we worked with them and we rebuilt the scanning software.

Q81 Mr Bacon: It is like buying Microsoft Word, finding it does not work properly, going back to Microsoft and helping them produce a word processing package that works so that you can use it. That is basically what you are describing.
Mr Lester: Maybe it does sound like that. That is what happened and we have a scanning solution that actually works.

Q82 Mr Bacon: Why was it not fully tested?
Mr Lester: I do not know.

Q83 Mr Bacon: Not fully testing things is an extraordinarily common thing that we see. Very regularly things are pushed out before they are fully tested. It is not like there is not experience of things failing to be fully tested. Tax credits were not fully tested. The CRB was not fully tested. It is a very common problem.
Mr Lester: Yes. It was tested, so it is not as though we took something at face value and said, "Okay, that is great", so it was user acceptance tested and it was tested. The failure was that it was not volume tested, and once it was used at volume it failed. We had a window between February and March when we were testing it and at that time there were one or two things that went wrong and then when we put it into a live environment in April—we had 100 users—we soon found that the scanning was, as I have described, freezing and not working.

Q84 Mr Bacon: Even 100 users was jamming it up?
Mr Lester: Yes. In hindsight it is—

Q85 Mr Bacon: It would not be difficult, would it, to get some students, who are always after temporary work, minimum wage, £5 or £6 an hour? You could do a bit of testing quite cheaply, could you not, at volume? Do you agree with me?
Mr Lester: I do, yes.
Mr Bacon: Excellent! We are making progress.

Q86 Chair: Mr Lester, when did you join the company?
Mr Lester: 1 June this year.

Q87 Mr Bacon: You are an interim, are you not?
Mr Lester: Yes.

Q88 Chair: You give us confidence. You have given me confidence because you sound like you have got a grip and you know what you are talking about. The trouble with interims is that they tend to be quite expensive. How much are you costing the taxpayer?
Mr Lester: My daily charge is £900.

Q89 Mr Bacon: And that is on a normal working week of five days a week?
Mr Lester: Yes.

Q90 Mr Bacon: There are other interims. Let me get this right. There is a chief operating officer. Who is he?
Mr Lester: That is David Wallace.

Q91 Mr Bacon: How much is he on?
Mr Lester: He earns £1,000 a day.

Q92 Mr Bacon: And the director of HR, who is that?
Mr Lester: That is Taroub Zahran and she earns £1,000 a day.

Q93 Mr Bacon: And the chairman of the board, also an interim, is?
Mr Lester: It is Professor Sir Deian Hopkin and I do not know how much he earns. Actually, I think it is about £8,600 or something like that.

Q94 Mr Bacon: Perhaps you could send us a note.
Mr Lester: Yes, I will.

Q95 Mr Bacon: How long are you all going to be interim and when will there be some permanent staff?
Mr Lester: We will be interims until the permanent staff are replaced. Advertisements have already gone out for the chairperson and the CEO's job was advertised, I think, on 18 or 19 September[5] in *The Sunday Times* and then I saw it again in *The Times*.

Q96 Mr Bacon: So you think by the end of the year your replacement will be in place?
Mr Lester: I would think by the end of the year, if everything works.

Q97 Mr Bacon: Mr Fraser nods, so it must be true, although will you be around, Mr Fraser, to see this? When are you off to the Foreign Office?
Mr Fraser: I am starting work in the Foreign Office at the end of August.

Q98 Mr Bacon: At the end of August this summer?
Mr Fraser: At the end of this summer.

Q99 Mr Bacon: I bet you are relieved, are you not? Back to your mates!
Mr Fraser: Actually, I have hugely enjoyed working in BIS.

Q100 Mr Bacon: I am sure you have. Could I ask both Mr Fraser and Mr Lester two questions, one about the programme board and one about the

[5] Note by witness: The CEO position was advertised in *The Sunday Times* on 18th July 2010.

company board because it seems that neither really knew what was going on. The programme board did not appear to. Mr Lester, the company's board thought everything was going well. It says on page 36, "The Company's board noted that 'it was pleasant to see that all the strategic aims were either Green . . . or Green/Amber [satisfactory]'", and, Mr Fraser, in paragraph 3.30, it says that the programme board was advised by officials within the department and the company "that completion testing was all 'Green'". This is on page 37. Who owns that green, by the way? Was that an OGC green? This is on page 37, about five lines down, ". . . in respect of the 2009–10 academic year was made by the Programme Board, which was advised by officials within the Department and the Company that completion testing was all 'Green'", so officials were telling the programme board and the company was telling the programme board that it was all green. Who owned that green?
Mr Hipkins: My understanding is that that was the SLC sub-programme board that was telling the programme board.

Q101 Mr Bacon: The SLC sub-programme board?
Mr Hipkins: Yes.

Q102 Chair: Which programme board?
Mr Hipkins: The SLC sub-programme board was telling them.

Q103 Mr Bacon: Could you repeat the names of the three sub-programme boards?
Mr Hipkins: SLC, BIS and the one on repayments, which was joint with BIS and HMRC.

Q104 Mr Bacon: The one on repayments?
Mr Hipkins: Yes.

Q105 Mr Bacon: So the SLC sub-programme board was telling officials and the company, who were then telling the programme board, that everything was green? Is that correct?
Mr Hipkins: Yes, that is my understanding.[6]

Q106 Mr Bacon: Mr Lester, the company was pleased to see—this is in paragraph 3.29—that all the strategic aims were green or green/amber, they were satisfactory. Why did the company not know that things were going wrong? I can understand—well, I cannot really. The programme board ought to have known.
Mr Lester: Yes.

Q107 Mr Bacon: But the company did not know either. Why not?
Mr Lester: I think there is a combination of things coming together. One is management information. The situation that existed last year was that there was data but there was not good management information and from what I have seen of the management information I think it would be very difficult to understand where the business actually was. We have now got daily—

Q108 Mr Bacon: This was because the balance scorecard was so poorly designed?
Mr Lester: It is quite a complex document and it was the document that was used. We now have in place a management information pack which I would describe as absolutely outstanding. We have daily MI. I know from this management information across the processing piece exactly where issues are being created, and at any point in the process I can examine if there is a little build-up. In association with those processing points we have created a contingency plan associated with each of those process points. First of all, we will know if something is going wrong and we will know immediately, and together with that we have a plan in order to trigger a process and escalate it to the appropriate person to resolve it.

Q109 Mr Bacon: Mr Fraser, when you go back to the Foreign Office you should take this with you and you would have a little map that would tell you what was going wrong and where in the world at any one time. You could get some consultant to design a big dashboard and you could have—
Mr Lester: It is not quite that good.
Mr Fraser: Mr Bacon, the Foreign office budget is not as large as the BIS budget.

Q110 Mr Bacon: Can I just ask you one other question? Your answer to why the programme board did not have the right expertise in HR and finance and IT was that it was in the sub-board, but it sounds like the sub-boards were giving out wrong information as well. What were the criteria for being appointed to either the programme board or the sub-boards?
Mr Fraser: Members of the programme board were the lead operational officials in the departments concerned. For example, in my department or its predecessor it was the deputy director responsible for this. It was at that level of Senior Civil Service management directly responsible for the programme. They were the lead people in each department.

Q111 Mr Bacon: So the criterion was not, "You have the right expertise"; it was, "You have a particular post and therefore on you go, onto the board"?
Mr Fraser: One would hope that with the post goes the expertise and the experience in dealing with the issue. I want to repeat that I believe that the supervision and monitoring mechanisms that were put in place have proven to be inadequate and were not sufficiently rigorously pursued by the department. I think we have improved that.

Q112 Chair: Has anybody within the department lost their job or been moved as a result?

[6] Note by witness: The programme board chaired by the Department agreed the green rating following assurances from the Company of satisfactory completion testing requested by the Department and refers only to readiness for the deferred launch of the 2009/10 service in February 2009.

Mr Fraser: Nobody in the department has lost their job but in performance appraisal the performance of the programme has been taken into account in the appraisal of all the individuals concerned.

Q113 Nick Smith: Can I ask a question about the voice of the student, the people that got such a poor service last summer? You have given us some comfort that you are on top of the quantitative analysis and the management reports of the service that is being provided at the moment. Is the voice of the student, particularly the disabled student, being taken on board at the moment? Are you trying to make sure that there is a qualitative analysis of the service you have provided and feedback which helps improve your service at the moment?
Mr Lester: We do actually take surveys from students. I receive, as does the chair, complaints about the service, but what we have done—

Q114 Nick Smith: What are they saying at the moment?
Mr Lester: It is a combination of things, and they are all very detailed and specific. One of the most significant complaints, which seems a little bit trivial but has caused problems which we are trying to sort out, is changing your password on direct.gov, which seems to be very difficult for students. We have had a couple of cracks at it and we have not sorted it so we have still got to do that. What I was going to say was that we have created stakeholder fora so there is a number of different stakeholder groups, and with regard to disability, which you mentioned, we have a disability group which is chaired by Barbara Waters, who is the Chief Executive of Skill, and on that forum there are a large number of disabled groups representing disabled students. They meet and I have met with Barbara and the feedback that I received from her was that again this is a world away from where we were last year and that students are feeling much better engaged and they feel that there is a degree of empathy and ownership from SLC that had not existed before. Indeed, there was not a stakeholder forum at all last year, and we now have a number of different stakeholder groups. On the principal ones, which is chaired by Professor Andrew Wathey, who is the Vice-Chancellor of Northumbria University, we have, amongst others, UCAS, the NUS and Universities UK. All of them are helping pass messages to our students. The management information that I mentioned before all goes before them, so they are totally and completely informed and up-to-date. All of the messages that they want to get to our collective students are discussed, and we use their channels in addition to our own channels to actually communicate with the students. In addition to those, we use Facebook and Twitter and texting, and all the sort of things that young students—the social networks—use. So I would like to think that they feel better communicated with and certainly more respected than they were last year.

Q115 Nick Smith: All that sounds good, and well done. Are you contacting students who are applying now and asking them about the service they are getting now?
Mr Lester: Yes, we are.
Mrs McGuire: I have increasingly grown confident in Mr Lester's answers, frankly, because I feel that there is an understanding and an awareness of not just the problems but how to bring some solutions. My question is directed at Mr Fraser, who is the Permanent Secretary in the Department for Business, Innovation and Skills. I am wondering if you have had the opportunity to reflect on why a department with that title sets up a company where there is little or no management information, where the programme board appears to be totally unsuited for the purpose for which it was intended, when tens of thousands of students find out that they did not have any money when they started college or university, and even weeks afterwards, when the IT froze after putting in 100 documents to scan, and when the sponsoring department—i.e. Business, Innovation and Skills—did not know what the hell was happening until it was too late. Have you had an opportunity to reflect as a senior civil servant—mandarin even—who is one of the up and coming (because that was the description that Mr Bacon gave you)—
Mr Bacon: "New generation"; the torch has been passed to a new generation.

Q116 Mrs McGuire: As one of the "new generation", can you share with us your reflections on why your Department set up such a company?
Mr Fraser: I can and I am very happy to do that, but the fact is the company was set up not by BIS but this programme was actually designed in 2006 by the then DfES.
Chair: It is the same officials.

Q117 Mrs McGuire: Could I just ask you—before you go down that road—there is a continuity of government and I do not think I want to get into a debate about who did what. There is a continuity here in terms of government responsibility and collective responsibility, so I am asking you, as the current guy in charge, have you had an opportunity to reflect on why this all happened and what lessons are you going to take with you and disperse to your successor?
Mr Fraser: I have certainly had a chance to reflect and I think that the report and the discussion we have had today has highlighted a number of shortcomings, and I accept that there were failings in this programme, both in terms of its design and its execution, and its surveillance. I am happy to recognise that. I hope, in terms of lessons learned, that we have now gripped this over recent months; there is a much more effective management ethos, I believe, within the Department and in the relationship between the Department and the company, and in the company's board. I think those are all very important components of this. As I have said, I have sought to take the lessons from this and, indeed, from previous cases such as the FE Capital

case, and to apply them across the Department in the management of all those relationships that we have with non-departmental bodies, which will in future actually be fewer than in the past because of the policy of reducing the number. To take one example, if I may, when we had the case of the Learning and Skills Council in relation to FE Capital, there was a report that was produced—I think it was last June, just before the Departments were merged—and I took that report and I actually wrote to the SLC leadership and invited them, and asked them, to study the lessons of that report as in relation to their company. So I think the point that you make about cross-learning is really important, and it is something which certainly I have now sought to instil in my Department.

Q118 Mrs McGuire: We understand that it did happen, but can you share with us your views on why it happened? Not the fact that it did happen.
Mr Fraser: The idea, as I think the report recognises, was a good one, to rationalise this process and bring it together. I think there were clearly problems in the design in some aspects of the programme; there were issues about leadership and the governance of the organisation. Those contributed to the failures. So I think there are a number of lessons that we have drawn out in this conversation. Why it happened? Well, mistakes must have been made along the way, and I think it is our duty to identify those mistakes, correct them and, to the best of our ability, ensure that they are not repeated.

Q119 Chris Heaton-Harris: In the NAO Report, page 25, the Department sets the targets for processing other support grants, such as childcare grants, but the company did not collect the management information. We have been told about a lot of management information that has now been collected to record its performance against them. Is your Department now getting the management information you require to make value judgments about the service that the company is giving?
Mr Fraser: I believe the management information we are receiving now is far superior to what we were receiving last summer.
Chair: That is not quite the same, is it? It is superior, you believe, but is it what you need? It is a yes/no question.

Q120 Chris Heaton-Harris: Is it comparable to what you are getting from parents' living allowances, or childcare grants?
Mr Fraser: The management information we are now getting, as I say—I will ask Mr Hipkins because he is actually our representative on the board of the SLC, and also, in the line, the senior official responsible. Therefore, we have to take his advice on that.
Mr Hipkins: I think the management information which we are now receiving every week reflects much more closely what is happening, and I think we can have much greater confidence that we understand the processes that happened in the company. Can I give you an example of that? One of the things we are particularly concerned about is scanning this year, to make sure that the scanning system now works. Earlier in the year there was a build-up of a backlog of work where the scanned information was then linked to the applications. That was identified from the management information that was there, the modelling was looked at, more staff were put on to that, that backlog has now disappeared and that part of the process is now working very well.

Q121 Chris Heaton-Harris: The problem, though, is you have nothing to compare it with in the past. How do you judge that there has been an improvement if there was no information coming forward at all previously, or the information you were being given was massively incorrect? How can I be happy in what you say? Is there a judgment based on the management information you are now receiving where you can say it is way better than what the local authorities were doing two years ago?
Mr Hipkins: I will perhaps turn to Mr Lester.
Mr Lester: I am not sure what the local authorities actually were doing, but the anecdotal evidence that I have received suggests that it is a lot better than it was with the local authorities. However, that is anecdotal; I do not know specifically.
Mr Fraser: Chairman, I think there are two specific ways in which the management information we were receiving last summer was particularly inadequate. One was this issue about it not reflecting the whole process and, therefore, we were getting assurances that things were being dealt with and, in fact, they were just being acknowledged and questions asked. The second was I do not think there was sufficient understanding of the importance of the call centre and customer service information, and that was inadequate. In those two respects I can absolutely guarantee you that we are getting vastly superior—much better—information now, which gives us a better view of both the processing performance and the customer service provided.

Q122 Stephen Barclay: Following up that point on the management information, you have just said how inadequate it was at the point in August when you became aware of it. How long did it take you to finalise with the company the management information that you needed?
Mr Fraser: In terms of the setting of new targets and so forth—Mr Hipkins?
Mr Hipkins: There was a process, really, from after the review of Hopkin, because the Hopkin review indicated that the management information was not adequate, and there was a long series of discussions between the Department and the company.

Q123 Stephen Barclay: A date?
Mr Hipkins: They started before the Hopkin review was published, because we had the—

Q124 Stephen Barclay: What date did you have the MI that you felt you needed, that was adequate?
Mr Hipkins: I think we had the targets around the middle of February 2010 but the management information has been evolving all the time. It has

been getting better and better as we have gone through and reviewed it to see whether it is actually works for us—

Q125 Stephen Barclay: But it was adequate in the middle of February, in your view?
Mr Hipkins: That was the start of setting out what the management information ought to cover. Then it was after that that the management information started to—

Q126 Stephen Barclay: You had a huge problem that you were aware of in August; you have got the press, students—particularly on the disability side—facing huge trouble. What I am interested in is the speed at which the Department reacts, because I want to come on to what happens this summer if things go wrong again. How quickly did the Department react to this? There was an issue in August. How long did it take you to get in place adequate MI? Was it the middle of February or was it another date?
Mr Hipkins: I think, as I say, the discussions we had with the company, and there was a series of workshops over January and February 2010, were to do two things: firstly, to agree with the company what the modelling ought to be so that the company could have some idea of when the applications were going to come in, what the load on the application processing was going to be and what the likely load on the call centre was going to be. So there was a lot of work making sure that those models were adequate. Having done that[7]—

Q127 Stephen Barclay: Figure 1 is quite clear, is it not? Figure 1 shows that approximately in May 2009 there was a backlog of 100,000, in June it was 150,000, in July it was 200,000 and in August it was 250,000. A pretty clear trend.
Mr Hipkins: Yes.

Q128 Stephen Barclay: When did you have that sort of figure in place? How quickly did you identify that?
Mr Hipkins: On the—?

Q129 Stephen Barclay: The MI.
Mr Hipkins: Last year?

Q130 Stephen Barclay: Did you have that in place in September? This figure showing this trend?
Mr Hipkins: I am sorry; I do not quite understand the question. Is this about last year's processing?
Chair: Yes.

Q131 Stephen Barclay: I am trying to get a handle. Page 6, Figure 1, shows the MI and the trend.
Mr Hipkins: For last year.

Q132 Stephen Barclay: There was a serious problem. You are made aware of this in August. What I am trying to establish is (there is a pretty dramatic trend here): how quickly did you get a grip as a Department on the MI with the company?
Mr Hipkins: The management information, as I said, last year was based on a target that we now agree was not the right one to do. The process that happened over the last year was that the SLC board received reports at its monthly meetings from the executive about what their view was of how processing was going and whether it was going to be successful, and the executive's view was, at several times in the year, that processing was still going in the way that the applications should be processed before the start of the—

Q133 Stephen Barclay: Can I just refer you to the press release that the Student Loans Company put out on 19 March, in which it says: "We are discussing with stakeholders what information they need to monitor progress"?
Mr Hipkins: Yes.
Chair: Is that 2009?

Q134 Stephen Barclay: No, no, this is 19 March 2010.
Mr Hipkins: Yes, that is the management information for this year, for the 2010/11 processing year. As I say, that has been worked on over January and February, with a process of continuous improvement, if you like.

Q135 Ian Swales: Do you accept the PriceWaterhouse comment in April that there was a surprising lack of urgency and focus on this, which I think is what we are actually talking about now.
Mr Hipkins: Yes, I think those of us in the Department who were working on this were disappointed at the progress that was being made.

Q136 Chair: How long have been involved with this in your current post? Were you there last year?
Mr Hipkins: Yes, I was.

Q137 Chris Heaton-Harris: When did the amber light start flickering red, by the way? In the report we are talking about there are these lovely traffic lights systems. When did you first get your first red signal?
Mr Fraser: Do you mean last summer?

Q138 Chris Heaton-Harris: Yes.
Mr Fraser: I think the issue last summer was that there was no information available to the Department that there was a serious problem until the beginning of September/the very end of August, after the A Level results came in. The problem we discussed was about the nature of the management information and the question of escalating the information. The Department was not aware, for example, that there 241,000 unprocessed applications because that information had not been shared. To come to the point about how the

[7] Note by witness: From the end of August 2009 the Department sought progressively more detailed management information from the Company; by February 2010 new objectives and performance measures were agreed; detailed operational management information was developed by May 2010, which has subsequently been refined further.

Department reacted, very rapidly at the beginning of September we were faced with a sort of crisis management situation in terms of the performance of the call centre and getting the processing right. The first thing was to react—

Q139 Stephen Barclay: Figure 1 suggests that from August the trend went pretty much in line. So it does not suggest, actually, that you did react quickly.
Mr Fraser: Getting the results is one thing. The whole system had sort of collapsed in the sense that the information—Mr Lester is probably best placed to tell you the nature of the problem.

Q140 Stephen Barclay: You are the accountable officer. What I am saying is, you are saying you reacted quickly but the numbers were not particularly remarkable and the MI had not been finalised. Yet you are saying your Department reacted quickly.
Mr Fraser: The question about changing the MI, I think, is a different question because what we needed to do was to investigate had gone wrong and what the problems were, which is what the Hopkin report was about, and then establish the new MI and reporting and management systems once, in particular, we had changed some of the directors of the company and were working with people with whom we thought we were going to be working—

Q141 Stephen Barclay: If the MI shows this summer that the company is failing again, will you transfer the work?
Mr Fraser: We had a meeting, in fact, on this with the Chair and Chief Executive yesterday to look at plans for the contingency for this summer. There is no indication at the moment that there will be a failure in delivery, but I think Mr Lester is best placed to talk about the contingency plans in place should there be a problem this summer.
Mr Lester: I have explained where we are, so we are in a better place than we were last year. We are looking at receiving around about 170,000 applications over the remaining period. What we have got in place is a process called the late application process, and given that our target for processing is six weeks, on the basis that we receive all the information, the six weeks run from 13 August—so that any time after that is considered by us to be a late application, because there is not six weeks to process it; indeed, it has already gone beyond the target date which we have advertised so many times of 24 June. If you just accept 13 August as being that date, then we have to receive 170,000; we are currently approving around about 25,000 applications a week. We anticipate that in the weeks of August 20/27 there will be a slight peak, and that is when students are looking for clearing and are changing circumstances, and all sorts of thing are going on. So we reckon that there will be a little peak then. Given that we are processing 25,000 a week and we have this late application process—let me tell you what it is: the late application process, fundamentally, allows a student to go to university with 75% of the maintenance loan. So at a theoretical level every student, even if they apply late, ought to be in a position to go to university with something, which is a much better place than they were last year.

Q142 Stephen Barclay: I accept a lot of work is going on to get it right this year, and we all hope it is got right this year and a lot of money has been spent on consultants to get it right. What I am interested in is—and if you had a meeting on it yesterday it suggests that there is a need for contingency—to what extent there are cost restrictions on your ability to cancel this contract if, in fact, it does not go right. This is more for Mr Fraser really: do you have an option to cancel this contract if we do find—
Mr Fraser: To change the whole structure? Well, I think the issue there is that the fundamental system, both the IT system and the delivery system, has not failed. It failed because there were some particular problems with scanning, but the actual model did not fail. There is no evidence yet that it has failed. So I think that, obviously, we are working to make it work this year. There is an issue about if it works and something were to go wrong what the options would be to remodel it, and we would have to look at that.

Q143 Stephen Barclay: In essence, we are locked in. We had a hearing yesterday where there were question marks over the value for money. We are locked into an option. In essence, what you are saying is even if it goes wrong we are locked in.
Mr Fraser: This is only year two of a three-year implementation phase, in any case, for this process.
Stephen Barclay: There is not a termination clause that gives you—

Q144 Chair: Is there not an alternative?
Mr Fraser: I suppose one alternative would be to return to the previous practice of doing it through the local authority.

Q145 Chair: Have you looked at that?
Mr Fraser: We have not examined that in detail because, as the report says, there is a sound rationale for doing what we have done.

Q146 Chair: But if it is not working—how many years? Are we going to allow the students a third year to go—
Mr Fraser: I think, quite clearly, we would have to look at options if things go wrong this summer, and we will do that. The other difficulty is, of course, there are lead times in any change programme, so you are locked in; in a sense, you are beginning the next cycle almost as soon as the present cycle ends. So you have got to have some sort of stability and continuity in any change that you introduce.

Q147 Chair: You could argue you ought to have an alternative option up your sleeve ready to go if this year is another disaster.
Mr Fraser: You could argue that but I think the main way to address that is actually to change the management arrangements, but that is of course

what we have done this year. We have, in fact, changed the management arrangements through the same company.

Q148 Chair: You have changed the management arrangements. I was just totting up: your interim staff cost you about a quarter of a million each a year. What are you offering as you are trying to fill those on a full-time basis, given views on top pay?
Mr Fraser: These are interim appointments, indeed. For example, Mr Lester's remuneration—

Q149 Chair: It is about a quarter of a million a year.
Mr Fraser: —which is equivalent to 167, I think—equivalent—was approved by the Chief Secretary to the Treasury under the present Government.
Mr Bacon: When you say 160—how many days? A normal working year would be about 260/265.
Chair: It is about a quarter of a million.

Q150 Mr Bacon: There are 260 working days in a year, not 160. That is my point.
Mr Lester: Except I will not be working for a year. It is 186 [8]—
Mr Bacon: I thought Mr Fraser was giving an annualised figure. Somebody is nodding behind, which is always dangerous for the individual concerned!
Chair: I sort of did it on the run: 1,000 a day, 250 days a year worked, about a quarter of a million. Where have I gone wrong?
Ian Swales: You do not work every day; you get holidays, bank holidays and weekends.

Q151 Chair: It is quite a lot of money! What are you offering the jobs on?
Mr Fraser: Certainly it is the Department's responsibility for the Chair, and we are advertising the new permanent Chair, which is a commitment of about 8 days per month, so it is not a full-time job, for £50,000 per annum. That is the Chair. We are not responsible for employing the staff of the SLC.

Q152 Chair: Maybe, then, Mr Lester can tell us: what are you able, within your budget, to offer for your three top management posts that you are advertising?
Mr Lester: What am I able to offer?

Q153 Chair: What are they going out at?
Mr Lester: I am actually not certain about that figure. I know that it is a six-figure sum, but I do not know specifically what it will end up being. It will be significant, but we are aware of the £142,000 a year guideline that is in place, and so therefore I would imagine it will take regard of that, and whoever is appointed would, I imagine, at the CEO level, be expected to earn around about that figure. But I do not know specifically.

[8] Note by witness: Mr Lester is expected to work for up to 186 days per year for the Company, taking into account holidays and other commitments, implying annualised remuneration of £167,400, excluding a bonus linked to successful performance.

Q154 Chair: Are you confident you are going to be able to recruit at that figure of the capability you require to get us into an efficient system?
Mr Fraser: Of course, interim arrangements are always more expensive. The previous CEO was earning a salary in that range. I believe that it is possible, particularly in the current labour market environment and given the understanding of the pressure on public sector salaries, that we should be able to attract a competent candidate in that area.

Q155 Ian Swales: Can I just ask an overall question? Listening to all this I have become much more confident that SLC seems to be heading in the right direction. What I am less confident about is whether BIS is able to manage these kinds of projects effectively and whether you are truly learning the lessons. If we go to other change projects that are taking place, would we see any of the same symptoms of programme boards without the right expertise, lack of communication, and poor management information, or are you able to confirm that you will not be sitting here with a different project having the same kind of conversation?
Mr Fraser: I think your concerns are perfectly legitimate, Mr Swales—let me start by saying that. It is a perfectly reasonable challenge. I think the Department is making great strides in improving its sponsorship of these organisations and its programme management for change programmes like this. I think, to some extent, there have been sort of legacy issues which we have brought together and which we are now seeking to address, and we have a culture in the Department and mechanisms which make us much better at sharing that knowledge and professionalising the management of these projects. I cannot guarantee that there will not be future issues; I certainly hope that I am leaving the Department on a much sounder footing than we were a year ago.

Q156 Ian Swales: People would have ownership, they would understand urgency and risk and the need to respond?
Mr Fraser: I think a very clear issue is accountability and responsibility, and I think sometimes in the public service those virtues are not driven home fast enough and people are not encouraged to take responsibility.

Q157 Chair: That is both within your organisation as well as within the company.
Mr Fraser: That is certainly within my organisation. That is, I think, very much the culture that we are seeking to build in the Department.

Q158 Mrs McGuire: Given what we have heard this morning and given the admissions that have been made, and the NAO Report, do you have any regret at all that last year the first line of defence on this was that a lot of it was to do with students—"They are only students after all; they never got their applications in on time; they are not very good at filling in forms"? I just feel that for a good few weeks it appeared that this was a problem that students had whereas, in reality, what we have heard this morning is that they were ill-served by this particular organisation. The first line of defence last year was definitely: "It was the students' problem; they were not very good."

Mr Fraser: I am sorry if it came out as that; I do not think that was the intent of the Department. There is, of course, an issue about people putting in their applications on time, which Mr Lester—

Q159 Mrs McGuire: Tell us about it. We are MPs; we understand about applications for expenses!

Mr Fraser: Having said that, absolutely the students were not well-served by the organisation and, by implication and by extension, by the Department.

Q160 Mr Bacon: I have got one question for Mr Fraser and one for Mr Lester. It is really a question for you but it is referring to something Mr Lester said. He gave a beautifully clear explanation of the management information that one would require in order to be able to do a good job in running an organisation, which you could almost drop on to any type of organisation you are asked to go and run, which presumably Mr Lester, being an interim, does get asked to do. The question I am interested in is the lessons that are being learned from this. You said earlier that your culture now is about sharing what you have learnt much better. Sharing with whom? Most of the things that are in here have been identified many, many different times—not once or twice but many times. The launching before being fully tested we saw with the Individual Learning Accounts, the Criminal Records Bureau and with Tax Credits; the problems of paper-less solutions we saw with the Criminal Records Bureau, and the failure to recognise risks properly practically everywhere; the processing of paper in different places we saw with the Rural Payments Agency—and so on and so on. Rather than just sharing with your colleagues in BIS, which you say you are doing—your culture is better at that now—what else is being done to share what you have learnt across government? Do you go off to the National School of Government and say: "We have an enormous laundry list of things that we did wrong; we have learned here?" They are problems that we know occur elsewhere in government, too, because they are quite generic. Should not you and the National School of Government, say, be doing something to spread the best practice and the knowledge? Does that happen?

Mr Fraser: It is a very good question. First of all, within BIS I think what we are trying to drive home is that sponsorship of these relationships is a core, key and integral part of people's jobs and responsibilities as civil servants in the Department. So that is sharing within the Department. I think your point about sharing between departments is a very good point, and my answer is I do not think enough is done. For example, I have looked at the Rural Payments Agency Report; there are a number of generic things in their recommendations which have wide application, and I do feel that we should have a better system across Whitehall of sharing that information.

Q161 Mr Bacon: Who is it down to to make sure there is a better system? Is it the Treasury? Is it the Cabinet Office? It is not, obviously, BIS. Is it?

Mr Fraser: I think that it is probably down to me and my fellow Permanent Secretaries to make sure that this happens. We have a collective leadership in Whitehall. We meet, we discuss these things, together in management groups and so forth, and the Cabinet Office supports learning and development through the National School of Government. I am sure there are programmes in the National School of Government, for example, on this. The really important point is that it has to come from the top and that we need to collectively ensure that we are driving that message into not only our own departments but across the whole of the Whitehall culture.

Chair: On that, I was going to ask Treasury, actually, in the minute that you will prepare in response to our report, that we look specifically at this issue—maybe with a new Government—of the mechanisms employed. We expect a minute from Treasury, so Treasury should in that respond on how we are going to share these issues, so we do not come back in a year or two's time with something else.

Q162 Mr Bacon: One final question: I was quite pleased to see that when there was a new Government the response was not immediately to dissolve or change BIS and transfer all the HE and FE responsibilities back to Education. The NAO did a Report on organisational change, and how much it costs, in central government, but you must have considered (and this is not meant to be a policy question—it is really a process question) whether these functions—and BIS has got, I do not know, how many junior ministers but it has an absurdly wide range of functions—are sitting in the right place. You can make an argument for it sitting in a Business and Innovation function, or a Skills function, you can make an argument that it is sitting in a Department for Education function, but you must have given some thought to where it would best sit, this type of thing? What is your conclusion?

Mr Fraser: There are two points I would make on that. I think, first of all, the rationale for the Department is actually a strong rationale in terms of the long-term economic growth of this country and the linkage of these sorts of skills and education and research as drivers of economic growth. I do think that is a powerful rationale. It is true that that gives the Department a broad remit, and we need effective management to make sure that we can cope with that. It also goes to Mrs McGuire's point, which is if you keep changing the structure of departments then you can get risk built in in the management of these programmes because there is no continuity and responsibility. It is better, at least, to have stability in the Department and the structures and the sponsorship relationships that helps us to improve that performance.

Chair: Thank you very much indeed. Thank you for coming at such short notice to give evidence. I hope everybody is agreed that we will incorporate this year's performance in the final Report that we put into the public domain, because I think that is the most useful way to do it. So many thanks.

Memorandum from Department for Business Innovation and Skills

At the Public Accounts Committee hearing on 27 July I undertook to provide details of the remuneration of the interim Chair of the Student Loans Company, Professor Sir Deian Hopkin. The interim chair is expected to devote an average of eight to ten days a month to this job for which he will receive a pro rata payment from an annual salary of £82,000. This is consistent with the rate payable to the previous Chair but reflects the need for Professor Hopkin to devote more time than his predecessor to his responsibilities until such time as a permanent Chair is appointed.

9 August 2010

Supplementary memorandum from the Department for Business, Innovation and Skills

Further to the evidence presented to the Public Accounts Committee at its hearing on "The Customer First Programme: Delivery of Student Finance" on 27 July, I am writing to you with additional information on the Student Loans Company's (SLC) delivery of the student finance service for the academic year 2010–11 applications cycle, as requested in your letter of 28 July.

As you suggested, BIS and SLC officials have worked with the NAO to agree the nature and format of the data provided. The NAO have requested that further information be included in this return on a number of other issues raised in the hearing. We have also provided an update on progress in implementing the. Recommendations made by the NAO in their report. I must inform you that, inadvertently, Mr Lester incorrectly informed the Committee of the extent of the improvement made in the targets for the processing of applications for Disabled Students Allowances (DSAs). During the academic year (AY) 2009–10 applications cycle, the target for each of the two stages for which SLC is responsible in the processing of applications for DSAs• assessing eligibility and entitlement• was 15 days: in AY 2010–11 this has been reduced to 10 days. At the end of March 2010, performance against the 15 day targets was very poor and it was therefore initially proposed that a target of 20 days might be appropriate for this year. BIS provided SLC with additional resources to reduce both targets

to 10 days for AY 2010–11. Mr Lester was incorrectly advised, and mistakenly informed the Committee, that these targets had been halved this year when in fact they have been improved by a third on last year and halved when compared with the proposed targets for this year. Mr Lester apologises for this error, as do I, which has only very recently come to light. Should you require any further information or clarification, officials will be happy to provide it.

29 October 2010

Memorandum from Department for Business Innovation and Skills

Further to the evidence presented to the Public Accounts Committee at its hearing on "The Customer First Programme: Delivery of Student Finance", this memorandum provides further information on the delivery by the SLC of the student finance service for the academic year (AY) 2010–11 applications cycle as requested in the letter of 28 July from the Chair of the Committee. The performance data requested is provided in full at annex A.

As that letter suggested, SIS and SLC officials have worked with the National Audit Office (NAO) to agree the nature and format of the data provided. The NAO have confirmed that they are content with the data and that the analysis is comparable with that provided in their report on the SLC's performance in delivering the AY2009–10 applications cycle. The NAO have requested that further information be included in this return on a number of other issues raised in the hearing. An update on progress in implementing the NAO's recommendations is also included at annex S.

SIS and SLC have published a series of Official Statistics to show progress in processing applications for financial support for students in England. The figures published in the Official Statistics are not directly comparable with those provided here; different definitions have been used and the Official Statistics include applications made to both the SLC and Local Authorities while the figures here cover only those applications made to the SLC. *Delivery of the academic year 2010–11 applications cycle*

The SLC has appreciably improved its performance in processing applications and in answering telephone calls for the AY 2010–11 applications cycle. At the start of term, the SLC had fully processed ready for payment 72% of the 691,900 applications received from new students and from returning students who began their studies in the 2009–10 academic year. In contrast, last year SLC had fully processed only 46% of applications from new students by the start of term. In addition, this year another 41,300 (6%) applications were assessed under the Late Application Process, where the SLC prepares a payment for the minimum non-means tested loan to be made where they do not have financial evidence or where the application is submitted close to the start of term.

For the whole AY2010–11 application cycle the SLC has taken on average 10.8 weeks to process applications from new students. This is a reduction of 1.6 weeks compared to the SLC's own performance last year, but 1.5 weeks longer than Local Authorities took in AY2008–09. On average the SLC has taken 8.7 weeks to process applications for returning students this year. This is 3.1 weeks longer than Local Authorities took this year (when Local Authorities processed applications for students returning for their third and later years of study) and 2.1 weeks longer than Local Authorities took in AY2009–10. Year on year trends, however, can be misleading. The average time to complete an application reported here includes the additional time taken to request evidence not provided with the application and to receive the signed loan acceptance form which is only required where an application has been submitted online. The return of the signed loan acceptance form can take a considerable period of time, particularly where applications are made early in the cycle when applicants feel less urgency as the start of term is still some time in the future. In a year where the number of applications received online has increased "significantly and the SLC has successfully encouraged applicants to apply earlier in the cycle, this will undoubtedly have had an effect on the average processing time and does not necessarily reflect the SLC's performance in processing applications.

Last year, Professor Sir Deian Hopkins' report described how disabled students were poorly served. Mr Lester set out at the hearing the steps taken to improve the service, including discussions with stakeholders to better understand the needs of disabled students and involving stakeholders in improving the complete process. SLC have also increased the number of staff assessing Disabled Student Allowances (DSAs) applications and provided enhanced training for these staff. Average processing times for DSAs have improved this year. The NAO's analysis of the data available in January showed that it took on average 20 weeks to pay a claim for DSAs last year. At 8 October this year the SLC are processing applications for DSAs on average in 17.8 weeks for new applicants and 14.7 weeks for returning students. This measure captures the time taken from receipt of the application to when a payment is made, rather than when approved for payment, used when measuring performance in processing applications for loans and grants. The nature of the application process for DSAs is such that the SLC first determines the level of entitlement and students are then reimbursed the costs of purchasing specialist equipment or support after an appropriate invoice has been submitted to the SLC. The level of entitlement can be established, and the application approved for payment, a considerable length of time before an invoice is received, particularly where an application is made before the student starts their course. The SLC have encouraged applicants to apply early in the cycle and the number of applications received this year has been ahead of the SLC's forecasts since June. Paragraph 10 below outlines SLC's performance against the targets agreed with SIS for processing applications for DSAs.

The performance of the SLC's contact centre has also improved. Over 95% of telephone calls were answered in September, compared with 13.3% in September last year. The SLC has used an outsourced contact centre during the period of peak demand, but is also assessing the reasons why customers telephone the Company with the aim of reducing avoidable contact. For example: the SLC has used stakeholders to pass messages to students; correspondence is being analysed and clarified; and work with Direct Gov allows customers to reset their online passwords (which has reduced the proportion of calls about passwords from 10% in 2009–10 to 4.6% this year). SLC continues to work with Direct gov to make SLC's on-line service easier to use.

Revised performance targets

The Department has agreed objectives and targets with the SLC to improve operational performance as recommended by the NAO in their report. Three targets have been agreed in the SLC's Annual Performance and Resource Agreement (APRA) letter around the timeliness of processing applications: (a) making payments by the start of term in respect of all applications submitted by the relevant deadline with full supporting evidence; (b) assessing eligibility for support within two weeks of receiving a fully completed application; and (c) assessing the student finance entitlement within four weeks of the eligibility being assessed or within 4 weeks of receiving full financial evidence where this was not provided with the application. The effect of (b) and (c) is that the target for complete processing of applications with full supporting evidence should be within six weeks.

At the end of September, the SLC Balanced Scorecard reported that SLC had processed for payment by the term start date 99.3% of fully completed applications submitted by the relevant deadlines. At the start of the reporting period in April 2010, the SLC was achieving poor ratings against the other two processing targets, but by September 100% of applications were assessed for eligibility within 2 weeks where full evidence is provided, and 97.6% applications were assessed for the student finance entitlement within the target four weeks.

BIS has provided SLC with additional resources to improve the processing targets for DSAs. The SLC is responsible for assessing eligibility for DSAs and, on the receipt of an independent needs assessment report, determining the level of entitlement. During the AY2009–10 applications cycle, the target for assessing eligibility and entitlement for DSAs was 15 days for each of these stages: in AY201 0–11 this has been reduced to 10 days. At the end of March 2010, the SLC Balanced Scorecard reported performance against the 15 day targets in respect of AY2009–10 cases as 51.95% and 38.6% respectively. It was, therefore, initially proposed that a target of 20 days be considered appropriate this year. BIS provided SLC with additional resources to reduce both targets to 10 days. Inadvertently, Mr Lester informed the Committee that these targets had been halved to two weeks (10 working days) this year from a four week (20 day) target last year. The target has in fact been improved by a third on last year and halved when compared with the proposed target for this year. We apologise for this error, which has only recently come to light. While it took SLC several months to build the internal capacity to meet this improved target, in September the SLC Balanced Scorecard showed that SLC was assessing eligibility within 10 days for 100% of cases and entitlement within 10 days for 92.6% of cases. This compares with 61.1% and 48.2% against the 15 day targets last year.

A new target has also been agreed for the processing of applications for childcare grants in four weeks of SLC receiving a fully completed application. This target is currently being met in all cases. Other elements of targeted support, including Adult Dependents' Grant and the Parental Learning

Allowance are processed with the main application and included within the 6 weeks processing target.

Improved Management Information

The NAO and the Committee criticised the lack of management information last year which undermined the ability of the SLC Board and the Department to provide effective oversight of the Company's operational performance. BIS and SLC officials, supported by professional expertise from PwC and across government, have worked to implement the recommendations from the NAO to overhaul the SLC's management information systems to provide data on processing applications and handling telephone calls. The SLC now has complete and coherent management information which is updated daily and used for operational management. A summary version is sent weekly to the SLC Board and the Department to ensure effective oversight of operational performance. This information is also shared regularly with stakeholders so they are well informed and can challenge as necessary. Applications for all the categories of targeted support and applications from part-time students are included in the management information.

ICT Infrastructure.

At the heart of last year's problems was the failure of the scanning equipment, and the management response to it, which created processing backlogs which in turn created an unmanageable number of telephone calls. Scanning was re- launched on 22 March 2010 and is now operating satisfactorily. To date, 1,163,347 individual items have been successfully scanned. Contingency plans are in place against any technical failures. The business case cost for scanning was £1,563,000 with the final outturn cost being £2,588,000, giving an overspend of £1,025,000.

However, Contact Centre Technologies has yet to be brought into operation. The system is currently being tested, with phased delivery planned from November 2010. The business case cost for the Contact Centre Technologies was £4,550,000 with the forecast outturn being £10,992,000, giving a predicted overspend of £6,443,000.

Overall Programme Savings.

Because the Department provided the SLC with additional resources this financial year, Mr Fraser said at the hearing that the Customer First Programme would break even a year later than planned. The original business case showed a six year payback period to financial year (FY) 2011–12, with cumulative savings accruing from FY 2012–13: the forecast is now a seven year payback period to FY 2012–13, with savings accruing from FY 2013–14. The Department is discussing with the SLC its financial requirements for the AY2011–12 service. A conclusion will be reached in time for a final OGC Gate 0 review which is due to be conducted in January. This will review the strategic business case for Customer First and the assumptions therein, as well as the benefits realised so far. To the extent that the Department provides additional resources compared to the original business case to support the service in AY2011–12 and beyond, it is likely the benefits will be further delayed and possibly reduced.

LOOKING AHEAD

As announced on 14 October, how student support is administrated will be discussed as part of the Government-wide review of public bodies, and will take account of the Government's response to the Browne Review which will be developed in a Higher Education White Paper, expected in the New Year.

BIS has appointed a permanent Chair to the SLC Board, Mr Ed Smith, who will take up the post from 1st November. Mr Smith, who has also been re-appointed as Deputy Chair of the Board of HEFCE, will be able to draw on his expertise in the fields of leadership and customer service, together with his knowledge of the higher education sector, to offer strong and effective leadership of the SLC. SLC can now proceed with the recruitment of a permanent Chief Executive and four permanent Executive Directors.

We now have a strengthened framework for delivery, which will allow improvements to continue to be driven forward. The development of a complete and coherent suite of management information, alongside enhanced forecasting capabilities, allows us to recognise where there are still weaknesses and to apply appropriate resources to address them. Significant steps have also been taken in building a constructive relationship with stakeholders in the higher education sector. The Student Finance England Stakeholder Forum and the working-level groups that sit beneath it have provided SLC with challenge and support, both in delivering the AY2010–11 applications cycle and in identifying areas to improve the service in future. In addition, the internal governance structures for student finance have been reviewed. The SLC leadership team has been restructured and strengthened and new sub-committees of the SLC Board provide more opportunity for challenge. BIS has undertaken a review of its sponsorship function across the Department and has strengthened its oversight of its partner bodies. The BIS Management Board has taken a close interest in the SLC's delivery of the AY2010–11, receiving regular updates on performance. The Management Board now reviews the top risks across its partner bodies at each of its monthly meetings.

We acknowledge that the service delivered by SLC for students starting in academic year 2009–10 was unacceptable and caused real upset for many students and their families. SIS and SLC have sought to learn from the events of last year and the service delivered this year has been much improved. We recognise, however, that there is still more to do and SIS continues to work with the SLC to make improvements to the student finance service so that students and their families receive the service they have a rig ht to expect.

Annex A

PERFORMANCE IN PROCESSING AND PAYING APPLICATIONS
AND IN ANSWERING CALLS

1. PERFORMANCE IN PROCESSING MAINSTREAM APPLICATIONS FOR THE ACADEMIC YEAR 2010–11 AS AT THE START OF TERM (SIMILAR TO FIGURE 8 IN THE NAG REPORT)

All Students

	Academic year 2010-11-17, At term start date	
	Number	*%*
SLC processed New and Returner applicants		
Applications Received	691,900	100%
Of which:		
Fully processed	499,600	72%
Provisional and interim assessments	41,300	6%
Not approved—awaiting information	42,700	6%
Not approved—awaiting assessment	108,200	16%
Of those applications not approved and awaiting assessment		
Received within six weeks of reporting date	31,100	29%
Received more than six weeks prior to reporting date	77,200	71%

Source: Company analysis of its own data

NOTE

Data relate to applications received from new and returner applicants which was not reported by NAO in 2009–10

Data relate to applications received on or before 10 October Figures rounded to the nearest 100 which may cause totals to be different from component figures

New Students

	Academic year 2010–11 At start date	
New applicants		
Applications Received	396,600	100%
Of which:		
Fully Processed	272,800	69%
Provisional and interim assessments	21,500	5%
Not approved—awaiting information	29,700	7%
Not approved—awaiting assessment	72,600	18%
Of those applications not approved and awaiting assessment		
Received within six weeks of reporting date	19,000	26%
Received more than six weeks prior to reporting date	53,600	74%

Source: Company analysis of its own data.

NOTE

Data relate to applications received from new applicants only

Data relate to applications received on or before 10 October

Figures rounded to the nearest 100 which may cause totals to be different from component figures

Returning Students

	Academic year 2010–11 At term start date	
	Number	*%*
Returner applicants		
Applications received	295,200	100%
Of which:		
Fully Processed	226,900	77%
Provisional and interim assessments	19,800	7%
Not approved—awaiting information	13,000	4%
Not approved—awaiting assessment	35,600	12%
Of those applications not approved and awaiting assessment		
Received within six weeks of reporting date	12,000	34%
Received more than six weeks prior to reporting date	23,600	66%

Source: company analysis of its own data.

NOTE

Data relate to applications received from returner applicants only. They were not reported by NAO in 2009–10.

Data relate to applications received on or before 10 October

Figures rounded to the nearest 100 which may cause totals to be different from component figures

2. The Number of Applications for Disabled Students Allowances for the Academic Year 2010–11 Received, and Numbers Paid, as at the Start of Term

At 8 October 2010

	New applicants	*Returners processed by SLC*	*Total SLC*
Received	16,000	2,200	18,200
Approved	5,200	2,200	7,400
Rejected or cancelled	300	0	300
Payments made	3,300	700	4,000

Note: The 3,300 new applicants paid compares to 800 at the same point in 2009–10 and 2,200 at the same point in 2008–09.

3. Performance Against Targets in the SLC's Annual Performance and Resource Agreement for Application Timeliness

Mainstream Applicants

(i) 99% of core applications, new and continuing, received before the deadline processed before the start of term

Performance at end of September: 99% (Green—target met)

(ii) 95% of applications new and continuing, received before and after the deadline, assessed for eligibility within two weeks

Performance in September: 100% (Green—target met)

Year to Date: 97% (Green—target met)

(iii) 95% of evidence assessed to confirm full entitlement within four weeks of eligibility for student finance being confirmed, or within four weeks of the evidence being received where it is not provided with the application.

Performance in September: 97.5% (Green—Target met)

Year to Date: 59.7% (Red—unacceptable)

Targeted Support

(i) 95% of Disabled Student Allowance applications processed within two weeks of receipt

Performance in September: 100% (Green—Target met)

Year to Date: 79% (Red—unacceptable)

(ii) 95% of Disabled Student Allowance needs assessment reports processed within two weeks

Performance in September: 92.6% (Green-amber—target met)

Year to Date: 94.1% (Green-amber—below target)

(iii) 95% of Childcare Grant applications (with estimated costs) processed within 4 weeks of receipt

Performance in September: 100% (Green—target met)

Year to Date: 94.1% (Green-amber—below target)

(iv) 95% off Childcare Grant applications (with actual costs) processed within four weeks of receipt

Performance in September: 100% (Green—target met)

Year to Date: 100% (Green—target met)

4. Average Processing Items for Academic Year 2010–11

Mainstream Applications

	At 10 October Average time (weeks) to fully process an application (All)	*(Online)*	*(Paper)*
New applicants and returning students 2010–11 academic year (processed by SLC)	9.9	10.2	8.4
New applicants			
2010–11 academic year (processed by SLC)	10.8	11.2	9.6
Returning students			
2010–11 academic year (processed by SLC)	8.7	9.1	6.4
2010–11 academic year (processed by Local Authorities	5.6	6.9	2.1

Source: Company analysis of its own performance data.

NOTE

Data relate to applications received from new and continuing applicants processed on or before 10 October 2010.

Average processing times in the NAO report for 2009–10 were calculated at 31 January.

Disabled Students Allowances

	At 8 October Average time (weeks)
New applicants	17.8
Returners processed by SLC	14.7

NOTE

Average processing time is from receipt of application to payment of first invoice.

5. Performance of the SLC Contact Centre in Answering Calls, from February to September 2010 Inclusive

Date	*Feb-10*	*Mar-10*	*Apr-10*	*May-10*	*June-10*	*Jul-10*	*Aug-10*	*Sep-10*
Call volumes	345,164	434,092	642,574	513,929	667,063	595,652	7,903	8,500
Network Terminations	7,858	8,990	30,654	4,379	22,378	5,954	7,903	8,500
Completed in IVR	75,077	93,250	146,896	114,518	140,001	127,057	146,441	192,966
Calls Answered (Agent)	252,901	311,347	374,679	376,717	453,503	443,937	538,495	694,033
Calls abandoned (Agent)	9,601	20,505	90,345	18,315	51,181	18,704	21,450	30,337

Annex B

PROGRESS AGAINST THE RECOMMENDATIONS MADE THE NAO'S REPORT "THE CUSTOMER FIRST PROGRAMME: DELIVERY OF STUDENT FINANCE" (EXCLUDING RECOMMENDATION F DIRECTED AT THE GOVERNMENT)

Recommendation A

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

— Develop clear, customer-focused targets for all loans, grants and allowances covering the process from application to approval.

The Department and SLC agreed revised, customer-focused targets for the 2010–11 financial year to capture the end to end process for applications processing from application to approval. These targets were translated into a published Customer Promise to make clear the level of service that students and their families can expect when applying for student finance.

— Improve its oversight of operations, including by obtaining professional expertise to advise on service readiness.

Following the publication of the NAO's report in March 2010, the Department commissioned PwC to provide a professional view of the SLC's readiness to deliver the AY2010–11 applications cycle.

This led to the appointment of a strengthened SLC leadership team and engagement by SLC of a team from PwC to provide expertise, including in programme management, to support SLC managers and boost SLC's capacity and capability in delivering an improved AY2010–11 applications cycle.

— Strengthen the Programme Board to include the right skills.

The Customer First Programme Board is being closed down and has been replaced with a revised governance structure to ensure clearer lines of accountability and that the right skills are included.

— Ensure the Company is not overburdened with change requirements during 2010

Complex policy changes have not been introduced in 2010. However, late decisions on the requirements for the AY2011–12 applications cycle have led to a delay in the launch of the service and this will need to be closely managed.

Recommendation B

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

— Deploy sufficient, flexible resources to process applications and handle customer contact to at least the standards agreed with the Department during 2010.

SLC has cross-trained 50 call centre advisers in application processing and has used outsourced contact centre resource to provide sufficient flexible resources to manage peaks in demand during the applications cycle. The SLC has consistently delivered to the contact centre performance standards agreed with the Department. SLC has improved its performance in applications processing during the first half of the year and is now delivering to the performance standards agreed with the Department in this area.

— Activate robust contingency plans in the event that significant backlogs start to develop.

The SLC have developed robust contingency plans for a wide range of eventualities in the delivery of the student finance service, including to manage significant backlogs in applications processing.

— Reduce unnecessary calls, through proactive and frequent communications with customers and stakeholders, for example, by letting applicants know when they will receive their finance.

The SLC has developed an avoidable contact strategy to tackle the reasons for customer contact and reduce the overall demand on the contact centre. For example: the SLC has used stakeholders to pass messages to students; correspondence is being analysed and clarified; and work with Direct Gov allows customers to reset their online passwords (which has reduced the proportion of calls about passwords from 10% in 2009–10 to 4.6% this year). SLC continues to work with Direct gov to make on-line easier to use.

— Establish an improved management information regime to track operational performance.

SIS and SLC officials, supported by professional expertise from PwC and across government, have worked to overhaul the SLC's management information systems. The SLC now has a comprehensive and joined up set of management information updated on a daily basis. The management information covers the end-to-end application process, including targeted support, and the performance of the contact centre and has continued to develop as the applications cycle has progressed. This information allows SLC to identify weaknesses and apply appropriate resources to address them.

— Use the recruitment of new executives to drive through a real improvement in the Company's Culture and quality of management throughout.

The appointments of Professor Sir Deian Hopkin as interim Chair and Ed Lester as interim Chief Executive, alongside a high-quality interim Chief Operating Officer, has improved the quality of management at the SLC and introduced a culture that is more clearly focussed on the customer. This will need to be driven through the Company by a permanent leadership team. Ed Smith will formally take up his appointment as permanent Chair on 1st November. Mr Smith will be able to draw on his expertise in the fields of leadership and customer service, together with his knowledge of the higher education sector, to offer strong and effective leadership of the SLC.

Recommendation C

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

The relationship between the Company and Department has been strengthened. Ways of working and working relationships are now much improved and are supporting a shared understanding of risk. Governance arrangements have been revised with a new programme structure in place for student finance policy and delivery. This involves BIS and SLC officials at each level, with regular meetings to enable more open communication and development of a shared understanding of how to deliver the service.

Recommendation D

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

— continuing with the Company;

— appointing an alternative provider to deliver part of the service, such as targeted support; and

— appointing an alternative provider to replace the Company in delivering the entire service.

There has already been significant change in the leadership of the SLC this year, with a new interim Chair and new interim Chief Executive in place since the end of May, as well as three other interim Directors and three new non Executive Directors. This is effectively a change in the management of the SLC. The Department has also provided additional resource so the SLC can draw specialist operations and programme management skills to support a more stable operation in AY2010–11. As announced on 14 October, the way student support is administrated is being debated as part of the Government-wide public bodies review process. The future of the SLC will be considered as part of the Government's response to the Browne Review which will be developed in a Higher Education White Paper, due to be published by the New Year.

RECOMMENDATION E

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

The Department and the Company have worked together, supported by professional expertise from PwC, to identify and implement improvements to streamline processes to improve the delivery of the service. Improvements in technology, including the introduction of a more user-friendly online application process and the facility to make changes of circumstances online, are starting to make the process easier for customers. Simplification of student finance policy and regulations will be considered as. part of the Government's response to the Browne Review which will be developed in a Higher Education White Paper, due to be published by the New Year.

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