

House of Commons  
Committee of Public Accounts

**INDIVIDUAL LEARNING  
ACCOUNTS**

Tenth Report of Session 2002–03

HC 544



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**INDIVIDUAL LEARNING  
ACCOUNTS**

Tenth Report of Session 2002–03

*Report, together with  
Proceedings of the Committee, Minutes of  
Evidence and Appendices*

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## Committee of Public Accounts

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### Footnotes

In the footnotes of this Report, references to oral evidence are indicated by ‘Q’ or ‘Qq’ followed by the question number; references to the written evidence are indicated by the page number as in ‘Ev .....’.

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# TENTH REPORT

The Committee of Public Accounts has agreed to the following Report:

## INDIVIDUAL LEARNING ACCOUNTS

### INTRODUCTION AND LIST OF CONCLUSIONS AND RECOMMENDATIONS

1. The Government introduced Individual Learning Accounts in England in September 2000, to widen participation in learning and to help overcome financial barriers faced by individuals. Accounts were to be available to everyone, including the self-employed, and were to be used to help pay for learning of the learner's choice. At the same time, the Government was keen to target people with particular learning or skill needs; for example, young people without qualifications and in low skill jobs, employees in small firms and those seeking to return to work. The scheme was to be funded from £127.5 million released from the wind-down of the Training and Enterprise Councils together with additional funding of £23 million (subsequently increased to £40 million) and £46 million in 2000–01 and 2001–02 respectively.<sup>1</sup>

2. The scheme was successful in attracting over one million people back into learning. However, in November 2001, a fortnight after announcing the planned suspension of the scheme with effect from December, the Government withdrew it following allegations of fraud and abuse. Total expenditure is likely to exceed £290 million against a budget of £199 million (Figure 1).<sup>2</sup> The scale of fraud and abuse could amount to £97 million, including £67 million fraud.<sup>3</sup>

**Figure 1: ILA Expenditure on National Delivery (£ million)**

	Income	Expenditure			Total (3)	Forecast for final outturn and overspend.
	DfES Budgets & TEC contributions for ILAs (1)	Incentives for training	Delivery costs (2) – Capita contract	Policy development/ programme support (consultancy/ evaluation)		
2000–01	70.0	51.8	15.6	2.6	70.0	70.0
2001–02	129.0	183.1	20.5	1.1	204.7	222.6
2002–03	0.0	0.2	1.5	0.5	2.2	0
Total	199.0	235.1	37.6	4.2	276.9	292.6
Budget	199.0				199.0	199.0
Overspend					77.9	93.6

#### Notes

(1) Includes the TECs' contributions to the budget for ILAs delivered by the national framework, i.e. after deducting cost of locally delivered ILAs.

(2) In 2000–01 some ILAs were delivered by a unit set up by TECs in the South-East. Figure includes £264,000 in management fees in 2000–01.

(3) Payments at closure of 01–02 Accounts (30 October 2002).

3. On the basis of the Comptroller and Auditor General's Report, the Committee examined the management of risk in designing and implementing the scheme, the effectiveness of monitoring, the Department's relationship with Capita, who operated the

<sup>1</sup> C&AG's Report, *Individual Learning Accounts* (HC 1235, Session 2001–02), paras 7–8

<sup>2</sup> *ibid*, paras 1–2, 16; Ev 29

<sup>3</sup> Ev 34

scheme, the level of fraud and abuse and the actions taken, and the lessons learned. We draw four main conclusions.

- The Department had 5 years to put in place arrangements to implement the Government's commitment to have 1 million individual learning accounts by March 2002. While the Department undertook extensive piloting to test innovative schemes, these did not provide workable solutions, and the scheme implemented was not well thought through or tested and was implemented in too short a time. While the tight timetable was of the Department's own making, after the pilots did not work it should have re-planned the project and ensured full testing before implementation, rather than over-ride sound project and risk management.
- Good risk identification and management is essential in major projects, especially those that involve innovative solutions. However, the Department's risk assessment and risk management were not fit for purpose, and were driven more by concerns that the scheme would not attract sufficient new learners. As a result, the Department did not give enough weight to advice received on the risks of fraud and abuse and about quality of training. Had the Department done so, and drawn on the work of this Committee and experience of counter-fraud strategies elsewhere in the public sector, it would have been able to build counter-fraud measures into the design of the scheme rather than react to events.
- To encourage new providers and new learners, the Department decided to minimise bureaucracy, including checks on learners, on providers and on the quality of learning. They should have matched this innovation with more rigorous and incisive monitoring downstream, but failed to do so. As a result, they were slow to identify emerging problems, including substantial fraud and abuse.
- The Department contracted the operation of the scheme to Capita. However, the contractual arrangements were weak and the Department and Capita did not develop the partnership arrangements necessary for success. This was a major factor in the problems that arose and also meant that the Department bore more of the key risks than planned.
- The Accounting Officer was frank in acknowledging the shortcomings of the scheme, and in regretting that they had occurred. He was however less able to assist the Committee in getting at the specific reasons why they had been allowed to occur. Acceptance of responsibility is important, but so is the need for Accounting Officers to provide convincing assurance that weaknesses have been properly analysed and understood so that the necessary improvements can be identified and implemented.

4. Our more specific conclusions and recommendations are as follows.

- (i) Despite looking for an innovative solution, the design of the scheme was not informed by a formal risk analysis, and risks identified in the pilots, especially on fraud and the quality of training, were not addressed sufficiently. The risk register was not put together on a systematic basis, and although it was reviewed monthly not all issues were actively pursued. The Department should complete its review of risk and risk management arrangements quickly, to ensure that they reflect best practice. Revised arrangements should be accredited by Internal Audit.
- (ii) Because the Department wanted to encourage people back into learning, and new providers to enter the market, it decided not to impose quality controls. To rely instead on learners and market forces to ensure that inefficient or ineffective providers were replaced was naïve, given that many of the people the Department



was trying to encourage into learning were those least able to assess the quality of the training on offer. It also ignored evidence from the pilots that the scheme was most likely to be successful where new learners had advice from intermediaries such as community groups and trades unions.

- (iii) In its current review of adult learning provision, the Department should ensure that potential learners have sufficient information and advice to make reasoned choices about the courses on offer. It should also consider accrediting providers, as the public tend to presume that learning funded under a Government initiative has its endorsement.
- (iv) In the absence of quality assurance, the decision to give a positive incentive to providers to recruit learners was fundamentally flawed. It encouraged a substantial number of unscrupulous providers to undertake aggressive marketing, and combined with control weaknesses created the environment for fraud and abuse. Innovative schemes such as this should be more rigorously piloted and tested to identify the risks, and allow effective risk management.
- (v) Although the Department commissioned a demand model for the number of accounts, the absence of a business model, sensitivity analyses and contingency arrangements, left it poorly prepared to take action when demand exceeded the funds available. In the event, the reactive steps taken to stem demand were ineffective, as providers found ways around them. The Department should build the need for sound business planning into its procedures for all major projects, especially those including substantial innovation.
- (vi) Because of ineffective monitoring, the Department was not aware of unusual patterns of activity, including very large payments to individual providers. Only belatedly did it realise that the apparent “success” of the scheme, as reflected in spending over budget, was an indicator of significant fraud and abuse. As part of revised risk management procedures, the Department should develop its monitoring arrangements, including exception reporting especially on those areas highlighted in risk assessments.
- (vii) Capita could have done more to insist that its concerns about risk of fraud and the necessary controls were taken seriously, but felt restricted by the lack of a place on the Project Board. All departments should ensure that private sector partners are integrated effectively into project management arrangements, and that partners can escalate concerns to senior staff, including the Accounting Officer.
- (viii) Although the contract involved risk sharing, it did not clearly define areas where risks were shared and in practice more risks remained with the Department than planned. In any future contracts risks and any risk sharing should be clearly identified and effective, drawing on guidance from the Office of Government Commerce.
- (ix) Security arrangements were not clearly specified in the contract, concerns raised during procurement were not addressed, guidance was not followed, usage monitoring was inadequate and the robustness of Capita’s systems was not independently tested. While there is no evidence of unauthorised access to the systems, a major flaw was the ability of authorised providers to access unused accounts and in one case to offer them for sale. Responsibilities and requirements for IT security should be spelt out clearly in contracts, any concerns raised during procurement should be addressed, and IT procedures should be rigorously tested.

- (x) It may be two years before the level of fraud and abuse is clear and action against those involved completed. The Department should follow through this work rigorously, and should also keep its Counter Fraud Strategy and revised counter-fraud measures under review.
- (xi) Internal Audit was involved in the project from the outset, as part of the project board. But it did not provide the independent check and assurance that the Accounting Officer needed. In part, this appears to be because it accepted management views about the need for light touch controls, to ensure the effectiveness of the scheme, and did not follow-up concerns raised at various stages about the risks involved. In addition, its planned review of Capita's systems was deferred. The Department should look again at the way it involves Internal Audit in projects. The aim should be to obtain their advice on risks and risk management at key stages on design and implementation, though those involved would need to be independent of subsequent internal control reviews.

#### MANAGEMENT OF RISK IN DESIGNING AND IMPLEMENTING THE SCHEME

5. The Department tested a number of different ways of implementing Individual Learning Accounts in a series of pilots over more than two years, but then decided that they were unsuitable for a national scheme and implemented a different model.<sup>4</sup> This squeezed the time available to meet the manifesto commitment to deliver 1 million learning accounts by 2002. As a result, despite a significant change of direction at the end of 1999 the project was not re-planned, and there was insufficient testing of the proposed scheme.<sup>5</sup>

6. Risks were highlighted during the design and pilot stages. However, the design was not informed by a formal risk analysis. Although the Department compiled a risk register and reviewed it monthly, it was not put together on a systematic basis and not all issues were actively pursued to ensure risks were minimised. The Department's assessments that risks were low were influenced by the low value of individual transactions, despite past experience of the vulnerability to fraud in franchised and distance provision identified in this Committee's report on Halton College, and advice from the Further Education and other sectors. Neither did the Department draw on experience elsewhere in the public sector on countering fraud. The fraud risk was not re-assessed as high until summer 2001, a few months before the scheme was shut down.<sup>6</sup>

7. The pilots also identified concerns about the lack of quality assurance arrangements, reinforced by the Learning and Skills Council and some providers. However, the Government wanted to encourage more flexible delivery of learning through a wider range of providers and, in particular, those operating in niche markets and those attracting new, non-traditional learners. So, in order to keep the scheme administratively simple, the Department decided not to impose quality controls. Instead it decided to rely on learners and market forces to ensure that inefficient or ineffective providers were replaced. Thus, while the Department required providers to be registered with the Individual Learning Account Centre, it did not subject them to quality assurance. By November 2002, there were 8910 registered providers, some of which were new ventures with no previous involvement in publicly funded education or training. The Department consider that the vast majority of providers were good, or new providers who had the potential to provide different types of training. But there had been a group who abused the scheme.<sup>7</sup>

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<sup>4</sup> C&AG's Report, paras 8, 22, 2.2–2.7 (and Report Card 1, p7); Qq 4, 93–94

<sup>5</sup> Qq 4–6, 92–93, 125–126, 160–162

<sup>6</sup> C&AG's Report, 22–24, 2.14–2.15, 2.2–2.9 (and Report Cards 1–2, pp 7–8); Qq 95, 109–113, 218–219, 222–223

<sup>7</sup> C&AG's Report, paras 14, 2.8; Qq 64–65, 157–159

8. Learners could choose with whom to undertake their learning, but those whom the Department wanted to attract were least likely to be able to compare different providers. In some small-scale pilots, this had been overcome where intermediaries, such as community groups and trades unions, provided the advice learners' needed. However, the Department's decided to concentrate the marketing of learning accounts via learning providers. Research suggests that 45% of account holders first heard of the scheme from providers and many courses were not appropriate to learners' needs. The Department accept that the decision not to have more checking of providers was the fatal flaw in the arrangements.<sup>8</sup>

9. The Department's Internal Audit was involved in the project board overseeing the development of the project. It was instrumental in requesting a project health check in March 2000, which highlighted risks in the arrangements. These included the difficulty in estimating demand and timing, shortage of relevant skills in the Department to manage such a large project, the absence of project quality control procedures, gaps in the risk register and inadequate contingency planning. However, Internal Audit had not escalated any remaining or subsequent concerns to the Accounting Officer. The Accounting Officer told us that this was because Internal Audit had taken into account the Department's decision to take some risks, and have "light touch rules" to get more people into learning, and like others in the Department did not at the time believe that was a wrong decision. He concluded that while he had a lot of confidence in Internal Audit, in this case they had not provided the independent assurance they should have.<sup>9</sup>

#### MONITORING THE OPERATION OF THE SCHEME

10. The Department targeted its marketing at specific groups, such as people with particular learning or skill needs, young people without qualifications and in low skill jobs, women returners to work and ethnic minorities. However, it did not set quantified targets for them, because the aim was not just to reach these groups but to encourage all types of people to come back into learning. Consequently, while there were some follow-up surveys as the scheme progressed, there was no monitoring of people coming into the scheme.<sup>10</sup>

11. The Department commissioned a detailed demand modelling exercise in Spring 2000, which estimated that 1.3 million accounts would be opened in the first year rising to 1.9 million accounts by 2005. But there was no sensitivity analysis and no business model, and despite the forecast number of accounts, the Department did not develop contingency arrangements if demand exceeded their plan for 1 million accounts. Capita did draw up business plans which included the possibility of higher volumes, but the Department took little notice of them because it expected to have difficulty attracting learners, based on pilots involving Training and Enterprise Councils in 1998 and 1999.<sup>11</sup>

12. As a result, the popularity of Individual Learning Accounts took the Department by surprise. Even though by the end of April 2001, 781,000 accounts had been opened in England, the Department was still considering a marketing strategy to encourage take-up and it was not until early summer 2001 that the Department recognised that the target number of learners, and the budget, would be exceeded.<sup>12</sup>

13. Capita provided weekly, monthly and annual activity reports on the number of accounts opened, expenditure, number of complaints and performance against agreed service targets. But the Department did not employ sufficient resources to review them.

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<sup>8</sup> C&AG's Report, para 1.12; Qq 129-135, 180-183, 194-199

<sup>9</sup> C&AG's Report, paras 2.13, 2.52; Qq 270-279

<sup>10</sup> C&AG's Report, paras 18-20; Qq 1-3, 152-155

<sup>11</sup> C&AG's Report, para 24 (and Report Card 2, p8), and paras 2.16-2.17; Q 96

<sup>12</sup> C&AG's Report, para 2.42

Crucially, Capita did not include any “exception reports” highlighting unusual items of activity or particularly large claims. The lack of effective review of management information stemmed from the mistaken assessment of the risk of fraud from the outset. It meant that the Department was not aware of very large payments to some providers (20 providers claimed over £1.5 million and two more than £6 million) until some six months later than it should have been.<sup>13</sup>

14. Concerns about aggressive marketing, such as stopping people in the street and offering them incentives to open accounts, arose as early as December 2000. However, while the Department suspended both providers it did not prosecute on legal advice, because the providers had been exploiting loopholes in the scheme rather than committing fraud. At the time, the Department did not think this was replicated across the rest of the scheme, but it became a feature in 2001, and should have been spotted and dealt with earlier.<sup>14</sup>

15. The Department accepts that as the scheme had been designed to minimise the bureaucracy involved, downstream monitoring should have been stronger. Monitoring was inadequate and key signals had not been picked up, because the Department had been focused on getting to the one million target, and a lot of the risk management that took place was directed towards that. The Department saw the rising number of accounts as a success in stimulating learning rather than a problem. Initially the budget overspend raised the alarm, and only when the Department looked at this alongside the other evidence did it see the other problems growing in the scheme. The action taken to stem the growth of the scheme, including ending the £150 incentive scheme in July 2001, failed as people found other ways to attack the system, particularly the 80% discount arrangements. The Department closed the scheme when it became clear that it could not be stopped in any other way.<sup>15</sup>

#### THE RELATIONSHIP BETWEEN THE DEPARTMENT AND CAPITA

16. To encourage innovation, the Department adopted a public-private partnership approach for the design and implementation of the scheme. However, by January 2000, after seeking competitive tenders, only one bidder remained. The other bidders dropped out partly because of the limited time available to implement the scheme. Capita told us that they had remained involved because they had the infrastructure to meet most of the Department’s requirements, had a good working relationship with the Department, and had a good track record of implementing projects in a speedy way. The Department considered whether they should take action to encourage more bidders to stay in the competition, but concluded that Capita were a competent company that could run the system, and decided to go with them. Not to go with Capita would also have risked delivery of the manifesto commitment.<sup>16</sup>

17. In June 2000, the Department signed a contract with Capita to develop and operate the scheme. Capita was to operate a call centre for enquiries about accounts as well as an administrative centre for registering learners and providers, processing new accounts, maintaining records of learning started and notifying the Department of amounts owing to providers.<sup>17</sup> Project risks were shared between the Department and Capita; for example Capita carried the risks of delivery of the technical solution to tight timescales, and of providing the capacity to support demand levels. But in practice more of the risks

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<sup>13</sup> C&AG’s Report, paras 24 (and Report Card 3, p9), 2.40, 2.50–2.51; Qq 26–30, 69–71

<sup>14</sup> C&AG’s Report, para 3.20; Qq 20–23

<sup>15</sup> C&AG’s Report, paras 2.43, 3.4; Qq 7–8, 49, 68–70, 156, 204–208

<sup>16</sup> C&AG’s Report, paras 9, 2.18–2.20; Qq 15, 72, 77, 127–128, 224–228; Ev 29

<sup>17</sup> C&AG’s Report, para 9

remained with the Department than planned, and there was insufficient clarity in areas where risks were shared with Capita.<sup>18</sup>

18. Although the Department envisaged a partnership with Capita, the relationship developed as a more traditional purchaser/supplier arrangement. The Department excluded Capita from the project board, even though Capita asked to be there, because its presence would have restricted open discussions of policy, and there was no sharing of risk assessment and management or discussion at senior levels about what was happening on the scheme. The Department considered that Capita might have shouted louder about emerging issues at various points. The Chief Executive of Capita agreed that he should have escalated issues (for example on the distribution of over eight million blank forms to providers) to the Accounting Officer and even to the Secretary of State, although this was difficult to do in public private partnerships.<sup>19</sup>

19. Capita devised its systems on the understanding that all providers would be accredited or registered with the Further Education Funding Council, Training and Enterprise Councils or awarding bodies, and pre-registered with the *learnirect* learning opportunities database. However, when the scheme was launched this database was not in place, and was never used for this purpose because of incompatibilities between records, and because the Department was not intending to accredit providers.<sup>20</sup> The specification also required the appointed contractor to carry out checks on the eligibility of the learner and of learning support. But as the *learnirect* database was still under development, the contract included interim provision for providers to self-certify. When the Department dropped the requirement for providers to be registered with the database, the interim provisions were not updated, leaving the system vulnerable to ineligible claims.<sup>21</sup>

20. Capita's role included developing and testing IT systems and security and its bid acknowledged the need for rigorous procedures to ensure data, programmes and documents were secure from unauthorised access and the importance of making the overall design robust with minimal chance of fraud and collusion. However, Capita did not pursue these points, and although KPMG identified the need to test the robustness of Capita's security arrangements, the Department did not do this and a planned review of Capita's systems by the Department's Internal Audit due in April 2001 was postponed until October 2001. Cap Gemini Ernst & Young's subsequent review of Capita's security system for the Department found that the contract did not include clear mandates on IT security, existing government guidelines had not been followed, usage monitoring was inadequate and no procedures had been established to ensure adherence to the security policy.<sup>22</sup>

21. While there is no evidence of unauthorised access to the system, some authorised learning providers made inappropriate use of it to gain access to unused accounts, some repeatedly during the last days of the scheme so that they could register learning as having started and claim the funding in respect of it. One such provider had offered to sell details of unused accounts and there were allegations of a large number of account details in circulation, and it was this chain of events that led to the decision to close the scheme immediately. The providers involved are under investigation.<sup>23</sup>

22. Following cancellation of the scheme, the contract with Capita continued while they were working with the Department on pursuing fraud and recovering money. The Department was also considering whether to launch a successor scheme and had agreed to

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<sup>18</sup> C&AG's Report, para 2.25; Qq 78–83; Ev 28

<sup>19</sup> C&AG's Report, paras 5, 2.23–2.25; Qq 14, 18–19, 84, 114–118, 240, 268–269

<sup>20</sup> C&AG's Report, para 2.31

<sup>21</sup> *ibid*, paras 2.32–2.34

<sup>22</sup> *ibid*, paras 2.30, 2.36–239, 2.53

<sup>23</sup> *ibid*, paras 2.36, 3.6–3.8; Qq 11, 262–267

work with Capita in developing arrangements for this, but the decision on whether Capita would be the delivery partner was subject to satisfactory progress and the outcome of negotiations with them. In the event, in October 2002 Ministers took the decision to consider any replacement arrangements as part of a wider review of the funding of adult learning and the development of the wider National Skills Strategy.<sup>24</sup>

23. Up to April 2002, the Department had paid Capita some £31.5 million out of the £55 million due under the full contract. Capita told us that it had still made a profit on the contract, although it had suffered a loss of reputation. In January 2003 the Department reached a settlement with Capita on outstanding sums due. This involved a net final payment of £1.5 million, some £1 million less than the estimated contractual entitlement. This takes into account termination charges due to Capita, the return of part of the profits generated by Capita under the contract Benefit Sharing Arrangements, and that the Department has made no payments to Capita since April 2002. The settlement figure was mutually agreed through negotiation to reflect a settlement acceptable to both parties based on Capita's delivery of the ILA system and the shared desire to conclude the wind-down of the original scheme.<sup>25</sup> In addition, at no charge, Capita will continue to provide support on the wind-down of the scheme until April 2003, and the Department will be able to draw fully on the investment in the design and development of the scheme.<sup>26</sup>

#### LEVEL OF FRAUD AND ABUSE, INCLUDING ACTION AGAINST PROVIDERS

24. In line with police advice, the Secretary of State closed the scheme with immediate effect on 23 November 2001, following the allegations that a large number of accounts had been extracted from the system and offered for sale. Registered learners had used their access to the scheme database to obtain detail of accounts for which they were not authorised. At the time, the Department estimated that if the scheme was not closed immediately, the value of fraudulent claims could run into tens of millions. Latest figures suggest fraud could be as high as £67 million.<sup>27</sup> But the Department does not know the scale of abuse whereby people received poor, low value courses.<sup>28</sup>

25. In addition, although the scheme was successful in generating 2.6 million accounts, only 1.5 million had learning registered by the time the scheme was closed. While a time lag between registering and undertaking learning was to be expected, some of the accounts had been "emptied" by unscrupulous providers. Fraud investigations and compliance visits to providers in 2001 and subsequently showed that 13 providers each registered over 10,000 account holders. This represented a very large number of learners recruited over a short time – more than the number of part-time students studying at all but the largest further education colleges. Two providers had over 30,000 learners. Moreover, there is evidence that a significant number of accounts were opened and incentives claimed without the knowledge or agreement of the account holder, and that a quarter of learners registered as having started learning had not done any.<sup>29</sup>

26. The Department currently has 70 staff working on follow-up investigations, and has someone working with West Midlands Police. Investigations include checking claims from about 700 providers. Some 153 are serious cases, of which 100 are already with the police and 60 people have been arrested, 14 charged, 10 are awaiting court appearances, 10 have been cautioned, and one has been sentenced to 9 months in prison. This is, however, a

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<sup>24</sup> C&AG's Report, para 3.21; Qq 98–102, 186; Ev 1–2, 33–34

<sup>25</sup> Ev 33–34

<sup>26</sup> Qq 186, 188, 231–232, 239–243, 254, 257; Ev 33–34

<sup>27</sup> Ev 34

<sup>28</sup> C&AG's Report, paras 3, 25, 3.6–3.9; Qq 57–60, 171–175

<sup>29</sup> C&AG's Report, paras 19, 1.5; Qq 12, 254–256

complicated and time-consuming process since it involves getting evidence that will convince the police and the Crown Prosecution Service.<sup>30</sup>

27. In addition, the Department is pursuing another 400 providers. It is contacting 50,000 registered learners, to ask whether they received learning. This should enable the Department to make estimates of the scale of fraud and abuse overall, and also for those providers which it has concerns about. It has written to 158 providers where there are questions to be answered, where money has been paid improperly or inappropriately, but stopping short of fraud, and where it is seeking recovery of the money paid. In most of these cases, the Department is withholding money until a settlement has been reached. However, it is not yet possible to estimate the amount likely to be recovered.<sup>31</sup>

28. The Department is cross-checking the companies and individuals involved with the Learning and Skills Council, and backwards to the Further Education Funding Council, to identify where else these providers might be providing training. It is also working with other Government Departments with a view to cross-checking with them as well.<sup>32</sup>

29. Of those under investigation, some have been linked to animal rights activity. Charges have been made against 3 providers, but the police do not have evidence to suggest that funds obtained from the scheme have been used to support animal rights activities.<sup>33</sup>

30. At the time of our hearing, about 95% of the money outstanding had been paid. On cancellation of the scheme, the Department froze payments due to providers, amounting to some £15 million, while it carried out checks on legitimacy of claims. The Department did not have total information on the number of providers who had gone out of business as a result of the cancellation, but knew of 13, mainly small, one person businesses. The Department recognises that providers will be more cautious in participating in any similar schemes in future.<sup>34</sup>

#### LESSONS LEARNED

31. We asked the Department how it was that despite substantial piloting, and advice from various experts and sectors, it came to design a system that was so open to fraud. The Accounting Officer told us that he had not been involved in the decision, but was ashamed of the failures that had taken place. He had looked in detail at what had happened and talked to those involved. There had been a number of key reasons. First, the design, and the decision not to have checks, had been driven by the view that a light touch, non-bureaucratic system was needed to persuade individuals and providers to come into the scheme. Second, there had been a belief that a market driven system would allow individual learners to judge whether the training was of a satisfactory standard and not take up the training unless it was. Third, the Department designed the scheme to provide incentives to encourage providers to find the learners and register them. In addition, the Department's project management, contract and supplier management, and management information was not good enough. With hindsight, he found the decisions inexplicable and accepted that the failure was one of the worst he had come across.<sup>35</sup>

32. The Accounting Officer assured the Committee that the lessons had been learned. For example, he had set in place arrangements to ensure that everybody engaged with supplier and contractor management was properly trained; had set up a unit to support project

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<sup>30</sup> C&AG's Report, paras 6, 25–26, 3.15–3.20; Qq 9, 47–48, 142–145, 150–151; Ev 28

<sup>31</sup> Qq 24–25, 38–45, 123, 212

<sup>32</sup> Qq 30–31

<sup>33</sup> Qq 191–193, 258–260; Ev 28

<sup>34</sup> C&AG's Report, para 3.10; Qq 108, 141, 209–211

<sup>35</sup> Qq 13, 33–37

management; and was undertaking a risk assessment from the bottom to the top of the Department.<sup>36</sup> In addition, the Department has strengthened its existing counter fraud measures, by developing a Fraud Risk Assessment Strategy. Its Special Investigations Unit is to become more proactive in undertaking a programme of inspection work to detect irregularity in those areas most exposed to the risk of fraud, and the results of this work will support the level of assurance given by Internal Audit to the Accounting Officer. The Department has also formed a 'High Level Senior Management Risk Group', to alert the board to key areas of risk, including the risk of fraud.<sup>37</sup> The Department has developed and introduced an improved range of training and development events including specific training programmes, contract awareness sessions, contract surgeries and master classes. Detailed guidance on the financial aspects of contract management including risk assessment and financial monitoring will also be available to staff on the Department's intranet.<sup>38</sup>

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<sup>36</sup> Qq 113, 163–164

<sup>37</sup> HC Debate, 5 February 2002, cols 881W–882W

<sup>38</sup> Ev 38



MINUTES OF PROCEEDINGS OF  
THE COMMITTEE OF PUBLIC ACCOUNTS

SESSION 2001–02

MONDAY 4 NOVEMBER 2002

Members present:

Mr Edward Leigh, in the Chair

Mr Richard Bacon	Mr George Osborne
Mr Ian Davidson	Mr David Rendel
Angela Eagle	Mr Gerry Steinberg
Mr Frank Field	Jon Trickett
Mr George Howarth	Mr Alan Williams
Mr Brian Jenkins	

Sir John Bourn KCB, Comptroller and Auditor General, was further examined.

The Committee deliberated.

Mr Brian Glicksman, Treasury Officer of Accounts, was further examined.

The Comptroller and Auditor General's Report on Individual Learning Accounts (HC 1235) was considered.

Mr David Normington CB, Permanent Secretary, Department for Education and Skills, was further examined, and Mr Peter Lauener, Director, Learning Delivery and Standards Group, Department for Education and Skills, Mr Rod Aldridge OBE, Executive Chairman, and Mr John Tizard, Director, Policy and Public Affairs, Capita Group Plc, were examined (HC 1296-i).

The witnesses withdrew.

The Committee further deliberated.

\* \* \* \* \*

[Adjourned until Wednesday 6 November at Four o'clock.

\* \* \* \* \*

SESSION 2002–03

MONDAY 17 MARCH 2003

Members present:

Mr Edward Leigh, in the Chair

Mr Richard Bacon	Mr Gerry Steinberg
Mr Frank Field	Mr Alan Williams
Mr Nick Gibb	
Mr David Rendel	

Sir John Bourn KCB, Comptroller and Auditor General, was further examined.

The Committee deliberated.

Mr Rob Molan, Second Treasury Officer of Accounts, was further examined.

\* \* \* \* \*

Draft Report (Individual Learning Accounts), proposed by the Chairman, brought up and read.

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

Paragraphs 1 to 3 read and agreed to.

Paragraph 4 postponed.

Paragraphs 5 to 32 read and agreed to.

Postponed paragraph 4 read and agreed to.

*Resolved*, That the Report be the Tenth Report of the Committee to the House.

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

*Ordered*, That the provisions of Standing Order No. 134 (Select Committees (Reports)) be applied to the Report.

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[Adjourned until Wednesday 19 March at half past Three o'clock.]

# MINUTES OF EVIDENCE

TAKEN BEFORE THE COMMITTEE OF PUBLIC ACCOUNTS

MONDAY 4 NOVEMBER 2002

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Members present:

Mr Edward Leigh, in the Chair

Mr Richard Bacon  
Mr Ian Davidson  
Angela Eagle  
Mr Frank Field  
Mr George Howarth  
Mr Brian Jenkins

Mr George Osborne  
Mr David Rendel  
Mr Gerry Steinberg  
Jon Trickett  
Mr Alan Williams

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SIR JOHN BOURN KCB, Comptroller and Auditor General, further examined.

MR BRIAN GLICKSMAN, Treasury Officer of Accounts, HM Treasury, further examined.

## **Correspondence from Mr Ivan Lewis MP, Parliamentary Under-Secretary of State for Adult Learning and Skills, to the Chairman of the Committee**

### INDIVIDUAL LEARNING ACCOUNTS

1. I am writing to let you know the decisions we have taken on the future of the Individual Learning Accounts (ILA) programme.

2. The Government remains committed to the original principles and vision of the ILA scheme. It put power into the hands of learners to decide what and where to learn. Much was achieved in the original scheme which we want to build on and extend.

3. In the light of experience of the original scheme, we have been considering carefully our future approach to ILAs, and in particular how ILAs can best integrate within the wider review of the funding of adult learning which was announced in the July 2002 Spending Review.

4. After careful examination, we have decided that it would not make sense to go ahead with full design and implementation of the new ILA scheme in isolation from that wider review. We must ensure that the successor programme is fully integrated within decisions about the future approach to funding adult learning. It is appropriate to announce the details of the successor scheme as an integral part of that strategy.

5. The review will be completed, and its conclusions set out, in the groundbreaking national Skills Strategy and delivery plan to be published in June 2003. Having made this decision it is now appropriate to proceed on a different basis in taking forward the ILA successor scheme.

6. I enclose the press statement which we are issuing today announcing this decision. (**Annex A**)

7. In the light of this decision, we have reached an agreement with Capita that our work with them on the successor programme is now complete, and it is sensible to terminate our current contract for the ILA programme. Capita will continue to provide further support to us on the wind down of the original ILA programme.

8. Given your Committee's previous interest in the ILA programme and our work with Capita, I should confirm that the work that Capita colleagues have done with us on the initial development of a successor scheme has helped to provide us with a framework on which we can now move forward and we are grateful for the partnership approach that Capita have adopted to the wind-down of the original ILA programme and the development of a successor scheme.

*Ivan Lewis*  
Parliamentary Under-Secretary of State  
for Adult Learning and Skills

*24 October 2002*

### **Annex A**

Responding to the National Audit Office Report on Individual Learning Accounts Department for Education and Skills spokesperson said:

“This is an important report from the National Audit Office (NAO). It is clear that mistakes were made and lessons have been learned.

4 November 2002]

[Continued

We remain committed to the principles of the Individual Learning Account (ILA) scheme. As the NAO Report says, this was an innovative programme which helped hundreds of thousands of people get back into learning. But as soon as the Department became aware of the potential for serious fraud we acted on police advice and closed the programme down immediately.

The NAO Report will play an important part in helping us to ensure that the successor scheme is robust and builds on the successes of the original programme, ensuring that the failures of the first scheme are not repeated.

The Government is developing a groundbreaking new National Skills Strategy. Central to this is a fundamental review of the way adult learning is funded in this country. The aim of this review is to ensure that the £2 billion spent on adult learning every year is used to maximum effect.

After careful examination, we have decided that it would not make sense to go ahead with the full design and implementation of the new ILA scheme in isolation from that wider review. We must ensure that the successor programme is fully integrated within decisions about our future approach to funding adult learning. It will therefore be appropriate to announce the details of the successor scheme as an integral part of that strategy.

The review will be completed, and its conclusions set out, in the Skills Strategy and delivery plan to be published in June 2003. Having made this decision, it is now appropriate to proceed on a different basis in taking forward the ILA successor scheme. As such, we have agreed with Capita that our joint work with them on the development of a successor scheme is now complete. We are grateful for the partnership approach that Capita have adopted to the wind down of the ILA scheme and the development of a successor scheme.

The National Skills Strategy gives us a once in a generation opportunity to ensure the provision of education and training is aligned to the skills needs of our economy. The principles underpinning ILAs will be a key element in supporting the achievement of this objective.”

## REPORT BY THE COMPTROLLER AND AUDITOR GENERAL:

### Individual Learning Accounts (HC1235)

#### Examination of Witnesses

MR DAVID NORMINGTON CB, Permanent Secretary, and MR PETER LAUENER, Director, Learning Delivery and Standards Group, Department for Education and Skills; MR ROD ALDRIDGE OBE, Executive Chairman, and MR JOHN TIZARD, Director, Policy and Public Affairs, Capita Group plc, examined.

#### Chairman

1. Good afternoon. Welcome to the Public Accounts Committee, where we have an interesting session ahead of us on individual learning accounts. Before I start could I please welcome Mr Beukman, who is the Chairman of the South African Public Accounts Committee whom I had great pleasure in meeting earlier today. Mr Beukman is very welcome and is very interested in how we do things coming from a fellow Commonwealth Parliament, of course, and we also welcome Mr Bacon, who is deputy speaker of the Tasmanian Assembly, as we welcome everybody who is attending today. Today we are considering the report by the Comptroller and Auditor General on the accounts. We welcome Mr David Normington and Mr Peter Lauener from the Department of Education and Skills, and Mr Rodney Aldridge and Mr John Tizard from Capita. Thank you for coming this afternoon. Perhaps I could just ask a few questions to start with to Mr Normington. What struck me from this report is that a large number of those doing this training had degree level qualifications, and there are doubts about the amount of learning that actually took place. Why did you not target specific groups and collect more data on results?

(*Mr Normington*) The purpose of the scheme was to encourage people of all sorts to learn. There were, as the report points out, groups within that who were target groups and actually the marketing was targeted on those. Those included young people without qualifications who are 19-30; people returning to the labour market; people in small firms and so on, but it was not just the aim to reach those groups. The aim was to encourage more people to come back into learning.

2. And was there any monitoring at an early stage of who was joining the scheme?

(*Mr Normington*) There was no monitoring early on —

3. Exactly —

(*Mr Normington*) There were some follow-up surveys done as the scheme progressed but there was no monitoring of people coming into the scheme.

4. On the risk management, secondly, you spent two years developing the scheme and a number of pilot schemes, and we see that in report card 1, paragraph 2.23. While having had these schemes that clearly were not working, did you implement a completely different national model very quickly and with inadequate risk assessment?

4 November 2002]

MR DAVID NORMINGTON CB, MR PETER LAUENER,  
MR ROD ALDRIDGE OBE AND MR JOHN TIZARD

[Continued

**[Chairman Cont]**

(*Mr Normington*) Yes. I think that is a very fair criticism. It was the case that what had been piloted was not implemented. What we learned from the pilots was that it was very difficult to get people to take up the scheme in many circumstances, and also that there were serious problems in what I might call the savings account model involving the banks, and ultimately the financial institutions would not participate, and at that point at the end of 1999 there was a significant change of direction. It is a critical moment; there should have been a pause; it should have been replanned and was not.

5. And you were up against a timetable?

(*Mr Normington*) We were up against a manifesto commitment.

6. Which was influencing your decision?

(*Mr Normington*) There was a manifesto commitment to deliver a million accounts by 2002.<sup>1</sup>

7. On monitoring, then, we are now into the scheme and it is up and running, why did you wait until April 2001 to recognise that take-up was running way ahead of expectations? If you look at page 26 you will see a sudden blip, a lot more interest in the scheme, and there were activity reports coming from Capita to you. Why did you not spot something unusual was happening?

(*Mr Normington*) I am afraid we thought that we had a success story on our hands. That was patently not true, but that is what we thought. We thought we had found the way of stimulating a lot of interest in learning, so we were not concerned at that point that there were a lot of people coming into the scheme. My first briefing when I took up this job was, "We have a success story on our hands. For the first time we have managed to reach a lot of learners". I think there is a serious problem about management information which is reflected in the report, but I think if you had looked at the management information available in April, you would not have concluded from that that the scheme was running away. You would have concluded we had a success story.

8. But surely you must have thought something was a bit fishy when you had sudden surges, maybe up to 10,000 people coming on to the scheme in a month. Did not that ring a few warning bells?

(*Mr Normington*) I think it should have done. You will hear me say a lot today that this was a bad story—it is a story of inadequate monitoring and not picking up the signals. I think there ought to have been much better monitoring of those sorts of blips. People were very focused on getting to the million and believed we would have a lot of trouble getting to the million, and that coloured the whole risk assessment. A lot of the risks that were being managed were the risks that it would not happen, not the risks that it needed to be turned off. That was entirely wrong as it turned out.

9. Thank you for being honest with us. It is always good when people come on this Committee and say "mea culpa" straight away but we still have to go on asking our questions! You are still investigating 133

cases; only 99 have been referred to the police; only one has been prosecuted. The scheme has been closed down for a year now. Why is everything taking so long?

(*Mr Normington*) Just to correct that, we now have 151 learning providers in the serious case; 99 are in front of the police; there have been 60 arrests; 11 charged; ten court appearances are awaiting; ten other people have been cautioned—why is it taking so long? It is taking so long because these are fraud cases and collecting the evidence and collecting the information, finding the evidence that there was fraud, is proving quite complicated and time-consuming. I am afraid it is going to go on for quite some time. Getting the evidence that convinces the police and the Crown Prosecution Service that there should be prosecutions is also taking time as well. I would like it to go faster.

10. What is the highest level of fraud that somebody might have got away with? The figure of up to £2 million has been given to me. Is that beyond the bounds of credibility?

(*Mr Normington*) I do not know. I really do not. I think that we could be dealing with some tens of million pounds of fraud here. I do not know how it breaks down into individual cases. I do not suppose it is beyond the bounds of possibility that £2 million could be there but I simply do not know. The way that this could happen, of course, is you have to have a very high volume of trainers multiplied by quite small amounts of money, so it takes a long time to get to £2 million.

11. They had these logarithms going and they could run straight through these programmes and a mass of accounts very quickly, could they not?

(*Mr Normington*) In the last week they were running computer programmes for 24 hours trying to get into a lot of individual learning accounts so they could draw the money out of it.

12. And we know that 40 per cent of the people who signed on to this scheme got no training at all, do we not, but a lot of these may be completely fraudulent.

(*Mr Normington*) A lot of that money was not spent. It is not the case that when you signed on to the scheme you immediately had to cash in the learning. There was always going to be a time lag. You took your account out and then you could pre-book learning over the next six months, so the fact that there was a gap between signing on and actually cashing in the learning does not mean to say that that learning was not there and was not provided. There were 1.4 million people who did learning under the scheme.

13. So in the light of all this, what lessons have you learned about your contracting arrangements for the future? About spelling out security arrangements, requirements for management information, and exception reports, for instance?

(*Mr Normington*) We have learned all those lessons. Our project management was not good enough, our contract and supplier management was not good enough, our management information and getting that focused on the exceptions was not good enough, and we have learnt a lot about our relations with Capita. I say again to you, this is a very bad

<sup>1</sup> Note by witness: The manifesto commitment was to deliver a million accounts within the lifetime of the Parliament.

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MR DAVID NORMINGTON CB, MR PETER LAUENER,  
MR ROD ALDRIDGE OBE AND MR JOHN TIZARD

[Continued

**[Chairman Cont]**

story, I am quite ashamed of it and I am quite ashamed of it on behalf of the Department. I am very sorry for it too, and we have to put it right.

14. Thank you for that. Was one of the reasons that there was too much of arm's length relationship between you and Capita? Perhaps if there had been a closer partnership, things might have gone better? They were trying to warn you, or were they not?

(*Mr Normington*) Mr Aldridge will speak for himself. I think they probably should have shouted louder at us at various points. I think that the relationship was one of us being the contractor and they being the supplier. It was not a partnership: we did not sit together on a partnership project board and therefore we were not sharing a discussion about what was happening with the scheme. We were asking Capita to do things—they did things. They sent us management information. There was not enough sharing of that so in that sense I think we have learnt quite a lot of things about how you run these sorts of partnerships.

15. Just one last question to Mr Aldridge: how was it, when all your competitors said they could not do this on time and it was not going to work, you alone decided to go ahead. Was it because you knew the risk lay with the Department and not yourself?

(*Mr Aldridge*) When you go into bids like this you do not know that you are the only bidder, and in fact the process that starts is generally with a long list and comes down to a few that were bidding. We chose to bid for this, and that is the other point to make. You select what you want to bid for. You do not necessarily go into it without making that choice. The reasons that we went into it were that we had the infrastructure that could meet a lot of the requirements of the scheme; we had good working relationships with the Department; we have a very good track record of implementing contracts and projects in a very speedy way. For example, we implemented throughout the country the theory driving test which we set up in six months, 150 outlets around the country, 1000 people recruited, an IT system designed, and it all went well. We set up for the Department for Work and Pensions the winter fuel payments which involved 2.7 million people —

16. We are not interested in anything else. If you could now answer my question. At the end of the day you knew the risk lay with the Department.

(*Mr Aldridge*) The contract, the discussions that then evolved—we were not aware, if I may say, that we were the only bidder. What we were aware of was the risk

17. But if you got the contract, the risk lay with the Department?

(*Mr Aldridge*) The way the contract was negotiated, and it is not uncommon with any contract, you look at what the risk and rewards are, you take risks where you can reasonably expect to control the things around you that are going to trigger those risks; where you cannot, then you say we are not prepared to take that risk, and that was the sense of the conversations that went on in the contract. We did not set out believing that everything was going to be a risk with the Department. That is not the way we —

18. You heard Mr Normington being very apologetic for this. What is your view? Does the blame lie with the Department, yourself, or is it to be shared between you?

(*Mr Aldridge*) The NAO report concludes quite a number of things about the whole scheme. What I would say is that I wanted to be involved with this because quite passionately I believe in education. I believe in everything that was trying to be achieved—developing a training, provide an environment, and also encouraging life-long learning—so I am enormously disappointed and saddened by the outcome of this. I feel that, as we will gather from the conversations we will have, there were things that could have been done and things that have to be learned from this.

19. And there are minimal things you should do in the future in your relationship with the Department—security, unusual patterns of activity and all that we saw in this scheme?

(*Mr Aldridge*) Of course, a lot of that information was there—it was how it was interpreted and used, and a lot of that is around the relationship that we have with the Department, particularly with the project board.

**Chairman:** We will leave it now and ask Mr Howarth to question further. Thank you very much.

**Mr Howarth**

20. Could I ask Mr Normington, the Report itself in paragraph 3.20, page 33 refers to the fact that as long as ago as December 2000 there were concerns within the Department that there was indeed some flaw. Could you perhaps explain what took place between then and the scale of the scheme being uncovered?

(*Mr Normington*) Yes. There were two cases in December 2000 and one of them was a case of very aggressive marketing of the scheme and the other was about IT courses and whether they qualified for the 80% discount or not. Both those providers were investigated and they were suspended from the scheme for a time. I have been back over this: I am not sure they told us enough about what was going to happen and what subsequently happened. They showed that there were two providers who were trying to make money out of the scheme. We looked at that and we did not think that was replicated across the rest of the scheme at that point.

21. Looking back on it now, was there a pattern that you could have discerned then that you missed?

(*Mr Normington*) I do not know about a pattern but clearly one of the providers was doing very aggressive marketing of the scheme which was something that became a feature of the scheme later on, the following year. I think we should have spotted that earlier. I think the other one, as I recall, was a specific issue about the nature of the IT courses that qualified for the discount, and that was sorted.

22. Perhaps you could explain to me the difference between aggressive marketing and some other kind of marketing? I thought by definition all marketing was aggressive.

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MR DAVID NORMINGTON CB, MR PETER LAUENER,  
MR ROD ALDRIDGE OBE AND MR JOHN TIZARD

[Continued

**[Mr Howarth Cont]**

(*Mr Normington*) Not necessarily. I think aggressive marketing—and there are some examples of this in the report—is pursuing people at hospital fetes, and I think that is one of the examples given there, and saying things like, “If you give us your name and address and sign up here we will make a contribution to the hospital”. I think that is not for me marketing learning; that is aggressive marketing of a scheme which is going to make somebody money, so I think you can draw distinctions. It is basically, later on, the people who were standing in Victoria Street trying to persuade people to sign up, and what that was about was trying to collect learners’ individual addresses rather than trying to get them interested in training.

23. So that was not anything to do with aggressive marketing then—that was simply to do with getting names and addresses so they could make false claims?

(*Mr Normington*) So they could make claims, yes. I do not want to get hooked on the word “aggressive”. People were being stopped in the street, being offered mobile phones or CD ROMs, and some of it was very persistent.

24. Something like 2.5 million accounts were opened, and we had some of these statistics a moment ago, of which 1.5 were used, but paragraph 1.5 suggests that a quarter of learners, some 400,000 people, were registered as having started their courses but had not done so. What steps are being taken, and where has it got to, to determine how many of the accounts were used by *bona fide* learners?

(*Mr Normington*) Where we can we are doing a major follow-up of learners. This is why it has taken such time. We are doing major mailshots to find out whether they had the learning or not and what kind of learning. We are also visiting all the providers who are under suspicion and although it is 151 serious ones, there are another 400, or just over 400, who are also being followed up. All those people are being followed up in one way or another and their records are being looked at and checked against the individuals’ names on Capita’s system, so there is a huge follow-up going on and we will not rest until we have completed that.<sup>2</sup>

25. Can you give us some idea of how long you expect that to take before it is completed?

(*Mr Normington*) I think before we know the full scale of the fraud, ie the end of the process, it will be two years. We are though, ourselves, clearing some of these cases. We have just written to 150 providers, on 1 October, where we think there are questions to be answered and where we are seeking recovery of the money. We think that it is short of serious fraud but where money has been paid to them improperly or inappropriately and we are seeking recovery of that. So there are different levels of action going on.

26. One of the things, obviously, that must have set alarm bells ringing was the scale of some of the claims being made by providers. Looking at the information in the report, paragraph 2.51, 20 have received over £1.5 million and two have received over £6 million. These are large sums of money and, given the fact that a lot of them would be very locally based, if they had been carrying out the work it would have been

quite an ambitious programme to have undertaken. At what point did the scale of those claims start alarm bells ringing?

(*Mr Normington*) Too late, is the answer. It should have happened much earlier—

27. Clearly that is the case!

(*Mr Normington*) Well, everything you can say about this scheme was too late, I am afraid. There is a chart in the report which shows that we should have spotted much earlier that there were these 20 or so big providers and we did not do that until well into the summer, and we should have spotted that at least six months earlier. Now that information was available: it was being provided: but a lot of information was being provided and that was not picked up. It is an obvious thing to do—to look at the big providers and to check them. That should have been done and was not.

28. Why was it not done?

(*Mr Normington*) It just was not done because the way in which the project was being run meant that it was not in the risk assessment that that was likely to be a risk to the scheme.

29. So what you are saying is that it was a failure of the system rather than somebody just forgot to do it?

(*Mr Normington*) Well, it was not that somebody forgot to do it. It was a failure of the whole processing system, yes.

30. In retrospect, again, what do you think should have been done for that not to have happened?

(*Mr Normington*) I think that there should have been much greater attention to the kind of management information you needed to test whether this scheme was meeting its objectives or not, and also what risks were arising in the scheme. It is clear to me that, if there are a number of providers who are very big claimers of money, you ought to be focusing in on those. One of the problems is that the risk assessment for too long assumed that the risk of fraud was not high, and therefore it followed from that decision that not enough action was put in place to test whether fraud was happening. It was very late—well, relatively late—the scheme only ran for just over a year but relatively late in the process before the risk of fraud was moved up the agenda. That was a mistake and it was made right at the beginning.

31. Finally from me, paragraph 3.19 on page 33 refers to further analysis you are undertaking into companies under investigation to identify whether any links can be made with others previously involved with fraud and abuse. Could you tell us (a) why you think it is important to do that, and (b) what progress you have made on that?

(*Mr Normington*) Obviously there is a lot of training and learning being done around the system and it is important that those companies are not popping up in other places in the system. What we have been doing is cross-checking with the Learning and Skills Council, who have been doing some checking with the providers that have signed up with it, and there is also some cross-checking backwards to the kind of people who did business with the Further Education Funding Council and so on. So

<sup>2</sup> Note by witness: We are following-up 472 providers.

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MR DAVID NORMINGTON CB, MR PETER LAUENER,  
MR ROD ALDRIDGE OBE AND MR JOHN TIZARD

[Continued

[Mr Howarth Cont]

we are trying to check in all the places in our programmes where these providers might be providing training.

32. Is this the organisations you are looking at, or the individuals within the organisations?

(Mr Normington) That is a good question. I hope it is both but I do not know precisely. It should be both because obviously these people—and this is one of the issues—trade under different names; they change their names and change the names of the companies.

(Mr Lauener) Coming in on that point, we are starting with the organisations and the company names that we on have on our records and cross-checking, as Mr Normington says, with the Learning and Skills Council database, with the UFI leardirect database, and with other providers within the group of organisations connected with our own department. I also convened a meeting with more government departments back in August as a prelude to doing the same with more government departments. We are just getting our data in a form where I can sensibly share it. The next stage is the one Mr Normington has just referred to which is going below the level of the company to the directors that are involved. We have not been able to do that yet but we plan to.<sup>3</sup>

#### Angela Eagle

33. How could you have been so deluded, because you have been deluded all the way through the process—about it being a success, being obsessed with the 1 million figure, actually designing a system that is very easy to defraud, if you even spend a little bit of time thinking about it.

(Mr Normington) I think that is the right analysis, in fact. I have gone over this in my mind and talked to the people who were involved in developing the policy. I did that again this morning because there were some decisions which, with hindsight, seem inexplicable and I take responsibility for it but I was not there dealing with this at the time decisions were taken

**Chairman:** You know that is no excuse.

(Mr Normington) I do know that but I am just explaining that I was not there, therefore I cannot tell you precisely what happened. I am reporting to you what I think happened. What I think happened was there was a belief that individuals would not come into the scheme and that there needed to be a very light-touch, non bureaucratic system to get them into the scheme. There was also a specific policy aim of bringing a lot more trainers or learning providers into the scheme, and there was a very early assumption that that would mean that there would be a very limited set of checks and rules and procedures. So right at the beginning a series of decisions were taken not to have checks. The decision not to have checks on learning providers —

34. I was coming to that. No accreditation, no validity checks on claims that were made and, in effect, an open door policy demand-led by the providers not the learners. That is the issue, is it not?

You set up a system which was driven by fraudulent training providers in their own interest, and there was a positive financial incentive for them to do so which is why you got a couple of examples of over 30,000 accounts being registered to individual training providers, and thirteen of 10,000 each. Absurd!

(Mr Normington) I do not think all of those providers were fraudulent, nor all of those individual claims. We have no evidence of that. But, yes, the original decision was the wrong decision. It meant that a lot of incentives were in the system to encourage learning providers to go out there and to find the trainees and to register them on the system. That was a deliberate decision of policy designed to get a lot more people into the scheme than we had ever done on previous schemes, and it does flow from a belief that this was going to be a market driven

35. Including virtual people?

(Mr Normington) Well, some. It was driven by a belief that this was going to be a market driven scheme and that the individual learners would judge whether that training was up to satisfactory standards or not, and that they would not take up the training unless they wanted it and needed it, and that was going to be the check on the scheme.

36. Did you or the Department seriously believe when the scheme was designed that providers would not have that kind of incentive, and that learners—because this was targeted at those with no qualifications although it was not only used by those with no qualifications—that learners with no qualifications would have that power in any market?

(Mr Normington) That was the assumption made at the time; I think it was the wrong one. I cannot defend that as an assumption. A set of assumptions were made at the beginning that there should not be any checks on providers or on the individual beyond absolutely rudimentary checks, and there should be very few checks on the learning that was undertaken. Those three decisions meant it was made as a very unregulated scheme and, with hindsight, it led to these problems.

37. With hindsight, yes, but if I saw a scheme that was summed up in the way you have just summed it up for its assumptions I would hear alarm bells ringing now, a priori, without having any experience of it. It would immediately worry me that you were setting up a system that would take on a life of its own, and effectively signing a blank cheque to those providers who are fraudulent and, as we know, there seem to be rather a lot of them.

(Mr Normington) There was a decision taken that this was going to be a scheme which, for the first time, did reach people who would not otherwise have learnt, and to do that you needed a much wider range of trainers and providers in the system than we had had up to now, and that was what led to there being no checks on providers beyond some very basic ones, nor on individuals. Yes, with hindsight, that was the wrong decision.

38. Very well. How many learners were registered without their knowledge—so-called learners?

(Mr Normington) I am afraid I do not know that.

<sup>3</sup>Note by witness: This is subject to Data Protection Act requirements.



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[Continued

**[Angela Eagle Cont]**

39. And we have only got guesswork, which has been done I think by writing to samples of registered people, about how many people had learning experiences—58%—and that must be done by survey because you do not know, do you?

(*Mr Normington*) No, because we have had to do it by survey. I do not recognise the 58 % figure, but there are two issues here —<sup>4</sup>

40. It is somewhere in the Report.

(*Mr Normington*) There are two issues. One is the number of people who signed up and how many then converted and did their learning, and the figures are 2.6 million signed up and over 1.4 million did the learning. That does not mean to say that the other 1.2 million were not prepared and ready to do their learning because there was a time lag and that was the design of the scheme between signing up and doing your training or learning.

41. But equally we do not know how many of those people were signed up without their knowledge in order simply to provide a payment for a fraudulent provider?

(*Mr Normington*) No, we do not. May I ask my colleague to fill in?

(*Mr Lauener*) That is precisely the area we are now exploring by contacting large numbers of learners as a basis for then pursuing any cases where providers have defrauded the public purse through the programme. We have contacted some 50,000 learners, 50,000 people registered on a database, to ask whether they received learning.

42. 50,000 out of 1.5 million, or 2.5 million?

(*Mr Lauener*) Well, it is 50,000 out of those for whom learning claims have been drawn down.

43. Yes, but you cannot go through all 2.5 million people who registered presumably, so in effect —

(*Mr Lauener*) No, we cannot.

44. — You are not going to know where half of this money went or what happened to it really, because there was nothing put in place to do validity checks and not enough information was collected because of the design of the scheme about what was going on out there?

(*Mr Lauener*) We think we will have from the sample of 50,000 an adequate basis on a statistical sample for not just making a global estimate but for making an estimate for the individual providers we have concerns about. The number of learners we have got has been chosen on that basis and we are in the process now of writing to 158 providers. On 1 October we said, “On the basis of the information we have, we think that a proportion of the claims you have made”—a proportion in these cases because these are not the most serious cases—“are not valid”, and we are making a proposition about how we can settle the business between the departments and that individual provider.

45. So you are still paying them?

(*Mr Normington*) On the whole we are withholding money, not paying it.

(*Mr Lauener*) We are withholding in most of these cases until we have reached a settlement. In the more serious cases we referred them to the police, and in those cases we are not contacting the providers directly because we do not want to contaminate the evidence trail with the police but we will in due course and we will pursue, if we cannot reach a settlement, outstanding cases in the courts.

46. But it is highly likely that large numbers of these fraudulent activities will go unpunished really because of the sheer scale of it.

(*Mr Normington*) Possibly, but that is not where we start. What we are trying to do is follow up actively everyone who has abused the system and we will not give up on that, but the scale of it means that it would be surprising if we caught everybody.

47. Clearly. You have the rest of education to be responsible for meanwhile. How much of the Department’s resources are being used pursuing this disaster, and trying to clear up the mess?

(*Mr Normington*) At the last count I had 70 staff working in this area and I have about 4,200 staff in the Department as a whole.<sup>5</sup>

48. Do you think you are giving it the right priority?

(*Mr Normington*) I think I am, yes, and somebody is also helping the West Midlands police from the Department to pursue the worse cases more rapidly than they would otherwise.

49. Do you think it is fair to say that the trigger for the discovery of all of this was the fact that you overspent the budget, £199 million, and that is what set the alarm bells ringing, rather than the aggressive marketing that was going on and the deeply flawed scheme you put into place?

(*Mr Normington*) I think in the summer of 2001 when we began to realise there were serious problems, first it was a combination of the budget, the number of complaints which, as you can see from the report, started rising, and those complaints being about the nature of the marketing and so on—it was a combination of those things really. The thing that brought it to my attention was the budget overspend because I was really alarmed about that, but when we then looked at it alongside the other evidence we had we saw there were problems growing in the scheme.

### Mr Osborne

50. Mr Normington, you said with admirable candour that it was a bad story, a story of inadequate monitoring, you are quite ashamed of it, you are very sorry, and project management was not good enough. Who has resigned within the Department at an official level as a result?

(*Mr Normington*) No one has resigned. The senior management who were dealing with it are not working on this any more and two of them are working outside the Department.

51. What are they working on within the Department?

<sup>4</sup>Note by witness: This figure refers to the percentage of account holders who had booked or undertaken learning before the scheme closed on 23 November 2001.

<sup>5</sup>Note by witness: This figure includes staff working on the wind-down of ILAS, and also staff developing plans for a successor scheme.

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[Mr Osborne Cont]

*(Mr Normington)* The two senior —

52. How about the person who Mr Lauener replaced, because I understand he is responsible for that division within the Department?

*(Mr Normington)* He is working on—sorry—I —

53. Come on. It is not that difficult!

*(Mr Normington)* Sorry—let me just say something. I am not prepared in front of this Committee to pillory my own staff. They did their best; it was obviously not good enough, and I will answer your question. The individual has been taken off all the line responsibilities he had, and a job is being—he is moving to a job outside the Department.

54. A job is being designed for him?

*(Mr Normington)* It is a real job, and I am not paying for it.

55. Because there is a genuine point here which is—and by coincidence the Secretary of State has resigned and ministers are expected to take responsibility for things that go wrong—that within the private sector if you were in charge of such a disastrous project you might lose your job or the company might go under, but within the Civil Service there is no real punishment, is there?

*(Mr Normington)* There is punishment short of dismissal. Sometimes people get dismissed for incompetence—that does happen. It has not happened in this case.

56. But is this not biggest case of incompetence you have come across in your Civil Service career?

*(Mr Normington)* It is a pretty bad case. It is about as bad as I have come across, yes.

57. You said you were investigating cases of actual fraud, but could I just turn to the things which are not actual fraud in the sense of people inventing learners who did not exist and so on, but just cases where you got ripped off, or the taxpayer did, with poor learning, low value courses. That is a much larger problem?

*(Mr Normington)* Yes, that is a much larger problem. The reason we stopped the scheme at the end of September when we temporarily suspended new providers and so on is we were much more concerned about that at that point. A lot of the story here is of the selling of training which amounted to almost nothing, either a CD ROM or access to a website or —

58. For which they got £150 cheque from the taxpayer?

*(Mr Normington)* For which the provider drew down the money. A lot of what we call abuse here is that.

*(Mr Normington)* Is there any way of estimating how much money was wasted rather than defrauded?

*(Mr Normington)* I cannot—because I do not know —

59. What percentage of these schemes were, frankly, in your estimation not worth the money?

*(Mr Normington)* I hold on to one fact which is a positive one which is that in our surveys, 91% of the individuals said they had value out of the learning and actually had done learning that had benefited —

60. Even if they got a CD, at least they had not paid for it?

*(Mr Normington)* Well, that is true. People started complaining about that. I do not think that was satisfactory, really. There are a lot of complaints about that. There is a spectrum here from serious fraud through abuse and irregularities to minor problems, and that is going to amount to improper payments of tens of millions of pounds. About half it we think, a bit more, is at this end, the fraud end. The other half is various types of poor value.

61. Table 11 in this Report, page 25, includes some of the ineligible courses funded. These include Transcendental Meditation, Exercise to Music—which I assume is keep fit classes—North Star Crystals—whatever that is, Summer Glastonbury 2001. Is there any prospect of retrieving a single pound of any of this money?

*(Mr Normington)* I am not going to defend that list. Of course the way that —

62. It is more New Age than New Labour!

*(Mr Normington)* This is the weakness of the scheme here. Let me just explain that one of the problems here is that learning was properly funded if it was vocational and for a vocational purpose. Some of the things in this list were for a vocational purpose. I am certainly not going to defend Summer Glastonbury. I thought I might defend Chronic Cats which is a very small one. That was for people who worked with vets in a veterinary practice and was about ailments of cats.

63. Season ticket was just a season ticket, was it?

*(Mr Normington)* I am afraid I do not know that. I have got a list of what they were; I am not going to defend them. Some of this was inappropriate learning.

64. You said in your answers to earlier questions to Angela Eagle that of course, with hindsight, there were all sorts of problems and so on. The interesting thing about this report is that that defence is very weak because you are consistently, as I read it, warned first of all by the Further Education Funding Council, by your pilot schemes, by Oakley Consulting who you get in, and even by Capita itself, your partner in this, that there are particular problems, particularly with not requiring quality assurances from providers. Why do those messages fall on deaf ears in the Department?

*(Mr Normington)* There were some warnings—I would not say they were as strong as you imply—but nevertheless there were people who raised this question. And the answer is: because it was a specific policy objective of this programme to bring lots of new people into the scheme from the private sector. It was thought a lot of them would be very small; they would be niche providers of particular types of training; and it was thought that that group would be put off by a highly bureaucratic and intrusive system of provider checks. When the scheme opened up, there transferred from the TECs and from the Further Education Funding Council over 2,000 training providers who were properly registered and properly checked —

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[Continued

[Mr Osborne Cont]

65. And the TECs and the Further Education Funding Council said “We will tell you who those are”, and they are good people?

(Mr Normington) And they came into the scheme and were checked and so on, but it was a deliberate policy to go beyond that to try to stimulate this market in training. It was the wrong decision.

66. With the March 1999 budget which introduced the 80% discount, it says in this Report that no research at all was carried out on how it might work in practice. Does the Treasury normally sign a blank cheque when you come up with that idea?

**Chairman:** Who is that question to?

**Mr Osborne:** I could ask the Treasury I suppose.

(Mr Glicksman) The decision in the budget was a decision in principle for the Department to implement. The details would have been for the Department. This would have been a decision that was taken over a year before the scheme went live.

67. So was it a Treasury decision or a Department for Education decision?

(Mr Glicksman) Well, the decision was in the budget but it was done in consultation with the Department.

68. Finally, can I ask you, you said when you arrived in your present job in the Department, which was in the spring of last year, you received a briefing from your deputy secretary saying “It is all going very well” and so on. When did you first think personally, “Something has gone wrong here”?

(Mr Normington) Somewhere around the end of June/early July because at that point the complaints were going up and the budget overspend being projected looked as though it was going up—the whole demand for the scheme was going up—and at that point I was worried and people began to say to me “There is a problem with this scheme”.

69. If you turn to table 13 on page 27, which is the graph, you will see that between July when you first had your suspicions and when the scheme was actually suspended, a huge number of accounts and active accounts were open. If you had acted on your suspicions immediately and wound down the scheme as quickly as possible, a huge amount of the fraud we have suffered as taxpayers would have been avoided. Is that not the case?

(Mr Normington) In retrospect that is so but we did take a lot of action from that point to try to stem the growth of the scheme. We suspended—

70. It had the reverse effect though, of course?

(Mr Normington) Well, the ending of the £150 incentive which happened at this time caused people to look for other ways for other parts of the scheme to start attacking, and that became apparent during August and September. They went for the 80% discount bit of the scheme at that point particularly. We did suspend providers at that point and we did later on stop issuing blank forms, because one of the things that happened here was providers had blank forms and they could register lots of individuals—

71. Which you gave them?

(Mr Normington) Which we gave them. We stopped that; we made it a requirement that individuals should register directly—we did all those things and growth continued upwards so we stopped

the scheme. Could we have done it earlier? I guess, yes, we could. We did it pretty fast but the way the scheme at that point was running out of control made it essential to close it.

**Jon Trickett**

72. I want to try a different line of questioning relating to contract management really. It seems to me that maybe some of the problems went right back to the beginning when the contract was let in the way it was. There were nine original consortia interested in bidding; you ended up with one. Did it not occur to the Department that Capita might be slightly rash in being the only one out of nine prepared to attempt to deliver this, given the fact that, with all the others, there was a unanimity of view that this was too fast a timescale to deliver?

(Mr Normington) We did have quite a debate at the time about whether we should do some things to encourage more bidders to stay in the programme and of course we also set up, and this was what best practice said we should at the time, a public sector comparator so we could test the cost effectiveness of the Capita bid. So we did consider that, but the decision was then taken that Capita were a competent company and we should go with it. They convinced us that they could run this system and they had a lot of experience with this type of system.

73. Paragraph 2.22 does talk about the public sector comparator and principally is concerned with price. The fact is that allegedly the public sector comparator, which always seems to be the case, turned out to be higher than the bid but it does seem to me that, alongside price, there also has to be a judgment about capacity to deliver a quality scheme for the price being bid and certainly in the private sector, if you were letting a contract, you would attempt to get the lowest price but you would also ensure that the contract was capable of delivering what you wanted to be delivered. You referred to cost effectiveness in your response to me. Is it not a matter of regret maybe that you looked at price rather than other indices as well?

(Mr Normington) We were looking at whether Capita could deliver against the specification and at that point, or just before, we took on KPMG to be our professional advisers so we could test whether Capita could meet the specifications, so it was not just about price but also about the specification being set out.

74. Are you satisfied that Capita delivered to the quality which you required?

(Mr Normington) Capita made some mistakes and it is certainly a fact that it was possible, once you were in this system, to get access to individuals' names and addresses, so no, not wholly satisfied.

75. You are the second accounting officer in recent weeks who has been in front of us who is reporting to us what effectively was a single tender bid. I wonder whether you feel that there is some problem with the Department convincing itself that it should accept a single bid, because it is always possible to construct a theoretical model of a public sector comparator but you are in a weak position in relation to the bidder, are you not, once you are down to one?

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**[Jon Trickett Cont]***(Mr Normington)* Yes.

76. Whether or not the bidder knows they are the only bidder, and Mr Aldridge is saying he did not know he was the only bidder, you knew and it is clear in this document that you felt weak as a Department in negotiating with him on it because of that?

*(Mr Normington)* Yes, and I would always prefer to have more than one bidder because it leaves you with only one option. Either you go with the bidder or you stop the scheme.

77. But you were under enormous pressure, including the manifesto commitment to deliver?

*(Mr Normington)* Yes, we were, and that was the choice really because if we had decided not to go with Capita, I do not think we would have delivered the scheme on time. However, the reason for taking on professional advisers and making sure that we had very good professional advice and setting up the public sector comparator was to try to make sure that, if we signed a contract with Capita, we could be sure that they would deliver, and that is what we believed.

78. I think the Committee needs to reflect on the situation which we are being faced with, with people like yourself coming here with single tender bidders which then turn out not to deliver precisely what was wanted. When it comes to the actual contract itself which you let to Capita, in paragraph 2.18 the specification, it says, made quite clear that the assignment must be a risk-sharing partnership and that therefore Capita were required to share the risk with yourselves. Elsewhere in the document we know that other risk was laid upon the Department and that therefore the bid which Capita made really in practice as the contract evolved involved no risk whatsoever on the part of Capita, or barely any.

*(Mr Normington)* I am not sure whether that is true but I accept the original intention was not carried through. This was a straightforward contract and we take responsibility for this. It did not, in practice, share the risk with Capita. That is true.

79. The argument for PFI is always that the risk is either spread or passed to the private sector. Here it is saying that the risk should be spread but the document says in effect the risk was not spread. Yet Capita's bid, and I am asking you, Mr Normington, would have allowed a substantial amount of money for the risk which they were being asked to take, yet they took no risk in the end?

*(Mr Normington)* I am not precisely sure that is what then happened. What then happened was a much more straightforward contract for the supply of this system and service, and that is what we paid for. I am not sure that the original intention was ever seriously carried through into the way in which the contract was developed. I do not know. I do not think it was.

80. Do you think that KPMG eliminated risk from that public sector comparator then? What you seem to be now saying is that Capita had no price in there for risk because the risk was not spread to them, really?

*(Mr Normington)* I do not know. You would have to ask.

81. Maybe the C&AG could advise us, not now, in relation—

**Chairman**

82. What do you mean, "You do not know"?

*(Mr Normington)* I would have to go back and find out precisely what happened at the contracting point on this point.

83. You can do a note for us, can you?

*(Mr Normington)* I can.<sup>6</sup>

**Mr Trickett**

84. My line of questioning really stems from the fact that here we had a not unusual process, whittling down from several people who appeared to be going to bid, down to one. The risk was not being transferred at all, or barely at all, into the private sector which is allegedly the reason why we went for these PFI things, and yet no risk was then being taken, or barely any risk, by the private sector. I would be interested to know whether the dice were once again loaded against the public sector, and that was the point of my question. Why did the Department incidentally refuse to have Capita on a joint board or in a partnership relationship with them?

*(Mr Normington)* It was normal practice at that time that you did not do that. It was a bit of theology about how you had to separate the purchaser from the supplier I think, but in this kind of partnership where effectively you are running this kind of scheme, that is the wrong decision. You would not do that now but that was quite routine in those days. In fact, it was not normal to have the contractor on the project board.

85. Paragraph 2.23 relates to this particular matter which I am questioning you about. There it says that there was a standard document provided by CCTA, who seem to be ubiquitous whenever we discuss this matter, who were suggesting a particular form of relationship, but I just referred earlier to paragraph 2.18 which talked about risk sharing and a partnership. Now, both cannot be true. The statement in paragraph 2.18 says that you as a Department specified a risk-sharing partnership, and you have just answered me that, in fact, the standard contract would exclude the possibility of a partnership?

*(Mr Normington)* It did not exclude it; it did not explicitly carry it forward into the contract, I think. It did not set out to exclude it. We use the standard contract but we adapted it to this purpose to some extent, obviously.

86. I do not feel at all comfortable with the way departments generally, and yours in particular, let contracts in these PFI relationships. I just want to ask something on an entirely different matter and go back to the fraud which went on. My own TEC in my own home town seems to have been engaged or have contractors engaged in fraud—very similar activities

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to the ones going on here. Was there substantial experience at the time of the TECs of this kind of fraudulent activity by contractors?

(*Mr Normington*) There is always some fraud in this system but I do not think there was large scale fraud in the system at this point. If there had been, we would have been more alert—

87. The police were certainly into Wakefield TEC.

(*Mr Normington*) Yes, there were some examples and examples of further education colleges at the time which are sort of referred to in the Report. Nevertheless I do not think that this is a system where large scale fraud is normal and therefore, when we were setting up this programme, people did not expect large scale fraud to happen in this programme. It is obvious they did not because they did not set it up in this way.

88. My experience of Wakefield TEC was that there was substantial fraud by learning providers, training providers, and I wonder whether the Department ought not to have been more aware that that was going on up and down the country?

(*Mr Normington*) We would normally have been very aware of fraud in TECs. I am not aware of that case.

#### Chairman

89. If you are not aware, you can give us a note on that as well, then.

(*Mr Normington*) Yes.<sup>7</sup>

#### Mr Jenkins

90. You have had some difficult questions and I am going to start off with some nice easy ones. You said in answer to the Chairman that it was a manifesto commitment to get 1 million learners by 2010?

(*Mr Normington*) 2002.

91. Did you mean by that it was not a departmental commitment?

(*Mr Normington*) Manifesto commitments, when the government is elected, become government department commitments.

92. So the Department was 110% behind this commitment?

(*Mr Normington*) Yes.

93. So why was your Department not data processing the system in place to run this scheme because you had not got the information? You did say that your management team were not really able to run this scheme and you took advice from different people. This is the risk assessment, and I notice you had advice from the Further Education Funding Council and they warned you about this—that they had been down this route before—and you ignored that; and you had all the expertise of KPMG on board and Capita itself who had been working there. Who made the decision that the risk was low? Was it the Department itself?

(*Mr Normington*) Yes. We had not ever run anything like this. This was a very different kind of programme because of the way it used what became the Capita system to link the individual and the provider. We had not ever run anything like that and there was no way that the Department could provide that system itself once it had been decided to have this kind of very innovative scheme. We then spent, as the report says, a substantial amount of time trying to get an arrangement with the banks which would involve individuals setting up savings accounts which—

94. We will come on to that.

(*Mr Normington*) I know, but a lot of time was spent developing that model, then quite late on that model was dropped because the banks did not want to be involved, and we moved on to something else. That is when the point of timing and speed came into it. But, with all this advice, everybody involved in this was doing something for the first time so although we had lots of expertise we were dealing with something that had not been tried before.

95. So the advice and the expertise from outside was not used?

(*Mr Normington*) Yes—you can see that in some cases it was not used properly and we did not take the advice, but in other cases it was used. We certainly did use the professional advice we had for setting up this project, but insofar as there were warnings about the risks, those warnings were not heeded.

96. Paragraph 2.16 in the Report refers to the demand model you commissioned from KPMG, but that you did not go on to develop a detailed business model to evaluate associated costs and benefits on the national scheme including the impact of demand. Why?

(*Mr Normington*) First of all, the estimate that the scheme would exceed its million, which is what was said here, was not taken sufficient note of. It was not believed that that would be the case. Secondly, there was quite a lot of testing—indeed, there was a development of a model of the scheme involving the financial institutions which was then dropped, and then there was only partial testing of the system that followed.

97. I can see you were 100% committed to making this a success, because at every stage of the way any expert from outside or any information or any advice was in the main ignored, and you carried on with the scheme which had been planned for Mickey Mouse. You are going to give free money away out there, and you are surprised that people queue up to take it. I went through this report generally looking for some good news, and I thought, “There are thousands upon thousands of fellow citizens who have an opportunity to take up a course that they may not have taken up”, and I did search but I did not find much good news in there.

(*Mr Normington*) I share that view, I did not either. However, the one thing I do not want you to take away from this is the belief that there were not a lot of people who did learning which they would not otherwise have done and which brought them value. There was a substantial number of people who did that. Everything else you say about the bad news in this report I agree with you about.

<sup>7</sup> Note by witness: The DfES Special Investigation Unit (SIU) were involved in the investigation of four providers who contracted with Wakefield TEC. Confidential note provided, not printed.

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[Mr Jenkins Cont]

98. I think it was Mr Trickett who said that the public sector comparator which you always devise and develop came up with a cost of £60 million and Capita's bid came up with £55 million, so Capita came out at £5 million cheaper. Is the contract with Capita still running?

(Mr Normington) Now?

99. Yes.

(Mr Normington) Yes, in a number of ways. We decided just over a week ago that we would not move immediately to a second scheme and we would terminate the present contract with Capita, so we are having a discussion about that with them. But they have been helping us since the first scheme closed with the recovery of money, and with the pursuant fraud they have been putting resources of their own into that. So we have been working very closely with them on that. We have to, because they have a lot of the details.

100. They have the details, the data, the systems and this inquiry is going to last for the next two years before it is fully run down, so Capita will be extremely useful for the next two years?

(Mr Normington) Probably not—

(Mr Aldridge) I think to be fair, a lot of the work that we would have done is complete. I think from now on, in terms of the two year period, we are very happy to help but it would be something which would be done within the Department.

(Mr Normington) Because we have all the records and all the information.

101. So you do not need Capita any more?

(Mr Normington) We are terminating the contract with Capita.

102. So it is not going to cost us more than £55 million?

(Mr Normington) It is not going to cost us more than £55 million. I am sorry—I cannot work out the arithmetic for that. We are having a discussion about the termination of the contract, and we have not paid anything to Capita since last April and very little since a year ago, only limited amounts, so that will all have to be taken into account. My colleague here tells me it is likely to be quite a bit less than £55 million. I did not want to say that to you unless I was sure, but we have to have this discussion with Capita and we are having this discussion, and this is obviously a settlement that we will have to reach.

103. So we shall save some money there to off-set the other costs?

(Mr Normington) Well, I hope we will not pay the full cost of the contract. Whether that is a saving I think is an interesting question really but, yes, we will not pay the full amount of the contract.

104. On value for money, you did say to Mr Osborne that the people you surveyed said they had value for money. On one level, for instance, was the amount used £25 or £175—the £25 they were supposed to have paid and then the £55 that the taxpayer is supposed to have paid. What figure was the one in question, in the survey? So if you said, yes, I am satisfied we have value for money and I have good value for my money, what did you use? The £25

or the £175? In the survey if you said “Yes, I am satisfied with the value for money, I got good value for money” which figure do you use, the £25 figure?

(Mr Normington) No, the question which was asked and which I referred to was “Did your learning under this scheme meet or exceed your expectations?” and 91% said it did. I am sorry, I misled you. It was not specifically a question about value for money, it was about did it meet your expectations.

105. £25 is not very much, £175 is quite a lot.

(Mr Normington) They might have paid more than that. It was a whole range of costs.

106. In that one category I was looking at.

(Mr Normington) Yes, £25 is not very much.

107. A couple of CDs and a book and I would be happy.

(Mr Normington) As the scheme developed the individual knew that they had the account with more money than that in, £150 or more, and they had to put in £25 in addition so they knew they had an account and they could draw down the money from that account.

108. One of the things we have overlooked are the good providers out there, there are some genuinely good providers who got caught in this sting. Their money stopped, some of those have gone bankrupt. Do you feel that in some way you may have lost more jobs in this country than you have created as a Department via this scheme?

(Mr Normington) There were 8,910 providers signed up with this scheme and we are pursuing somewhere around 600/700 providers which is quite a small proportion but they were often the ones who took a big amount of money out of the scheme. We know of 13 businesses which have actually gone out of business but we would not necessarily have total information about that because we did not contract them with ourselves. We know there were 13 firms which went out of business since we closed the scheme. They were often very, very small providers, one person businesses and so on.

### Mr Steinberg

109. I think you have got the Department off the hook this afternoon by your apologetic attitude to the Committee which is very commendable because we do not often get it. On the other hand I think you are getting away with murder, frankly, because I think this is absolute incompetence on the part of your Department, which I think needs saying. What is unforgivable is you were given advice and you ignored that advice and you pushed that aside. You thought “Well, okay, we have got that advice” but you did not take it. You were given advice from this particular Committee in fact because we looked into some of the fraud and Mr Trickett is absolutely right, there was fraud rife throughout the country in further education colleges in franchising learning. Halton College appeared in front of us where it was an absolute disgrace what was happening there. We were given guarantees when we made that report that it would not happen again through the FEFC and

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your Department. Again you ignored that advice and went ahead willy nilly on this scheme which was doomed to failure.

(*Mr Normington*) There are only a certain number of ways, Mr Steinberg, I can say I am sorry.

110. I am not interested to hear you say sorry, Mr Normington. I want to know why you ignored the advice when it was clearly in reports which said that there was huge scale fraud taking place with learning providers in further education colleges. We made a report on that and we pointed out what was happening. We were given assurances—it was not another department, this was the Education Department—we have minutes of where the Treasury have responded to the recommendations that we have made and you ignored the Committee of Public Accounts. You totally ignored us and went ahead.

(*Mr Normington*) We did not ignore the Public Accounts Committee, we did not ignore that report. We did not believe that the lessons from that report were relevant to this. I am sorry if that was wrong, it may well have been wrong because it was a quite different sort of scheme from the case where Halton was franchising learning. I am quite prepared to say that was wrong but we believed these were two different cases. We did look at the providers which had been in question in the Halton case and only one FEFC provider of concern was also a provider in the Individual Learning Accounts case.

111. The Further Education Funding Council actually gave you advice and you ignored that, totally ignored that. How you can say that there were no similarities I cannot understand because it was exactly virtually what we said was happening in the further education colleges. It was exactly what happened at Halton. It is almost an exact scenario.

(*Mr Normington*) We did take on some of the lessons. We did not take on enough of them. We did not take the advice of the Further Education Funding Council and others about the risk to the scheme. I am sorry, we did not do it.

112. Not only did you not take advice on this particular episode but you did not take advice, again, from this Committee when we did the report on the cancellation of the benefits fraud card project. We said in that report, if I remember correctly, that there was a need for the Department and the proposed partners to be honest with each other in terms of risk. You were not honest with each other in that. It is not a partnership, is it? Why did you ignore that report, presumably one assumes that chief officers or permanent secretaries read the Public Accounts reports, why was that ignored?

(*Mr Normington*) I do not know why that specific thing was ignored.

113. We sit here and make recommendations, it is all just: “Well, it is the Public Accounts Committee, we will just ignore it” and that is just not on to be quite honest. We sit here for hours making recommendations and they are just ignored, they should not be ignored. It cost the taxpayer £60 million. If it had been listened to and advice had been taken then we would not have a situation now where £60 million has been washed down the drain.

(*Mr Normington*) All I can say to you is I am committed to making sure these lessons are learnt in the future. I have accepted that there were serious mistakes made in this scheme. I will make sure that we learn these lessons across the Department. I have set in place the arrangements to make sure that everybody who is engaged with supplier and contractor management is properly trained in that. I have set up a proper unit to support project management. I am doing risk assessment from the bottom to the top of the Department. I have learnt the lessons, that is all I can say.

114. Let us talk to Mr Aldridge. Mr Aldridge, you are just as much to blame as the Department to be quite honest as well. You should have insisted that you should be listened to. Why did you not insist?

(*Mr Aldridge*) It has been quite interesting listening to the conversation that has been going on because in a sense it is part of the issue. What we are talking about is not PFI but public/private partnerships and this whole area of how the public and private sector interacts is a very, very big point. It is not a point about the Department for Education and Skills, it is a bigger point.

115. Mr Aldridge, you are waffling.

(*Mr Aldridge*) I am not waffling.

116. Why did you not insist, get the Department to say “Look, the risks here are enormous”? You knew they were because you were saying that in a very soft tone. You were saying that. You did not insist. What was more important: the contract or getting the job right?

(*Mr Aldridge*) We were managed at the contract level. We were not on the project board and we asked to be on the project board, and we asked on numerous occasions. The experience and power of what we have got is actually being controlled by somebody who, frankly, is not up where the policy is going to be decided. Systematically over a period, and we made a comment about that, and Mr Normington has accepted that, when different decisions were made, we were not a party to those decisions. We actually looked in on 16 different occasions.

117. I am saying why did you not say “This scheme is crap. It is going to fail. The taxpayer is going to be robbed blind but we will still make our lucrative contract out of it?” How much profit did you make out of this?

(*Mr Aldridge*) Because you look at something, you asked that question, you have to think about what is happening over time. Over time you make those comments. What I have accepted I should have done is I should have escalated that to the Permanent Secretary or to a senior person within the Department. I should have escalated it to the Minister also. I have to say to you it is not easy to get to the Minister, you must really understand that in these Public Private Partnerships.

118. This will be picked up this afternoon.

(*Mr Aldridge*) You can say you want to escalate something, and I feel mortified that I did not because I think this is a very good scheme and I hear what Mr Normington has said about it so I should have done that, I accept that. It is not an easy process and it is

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about having skills, also, and the experience of the people you are dealing with on the other side of this divide which has got to be increased and improved, and Mr Normington made the point about that. That is a big point and again it cannot be ignored in any of these debates that you are having because it comes back to the same thing every time.

119. Would you agree that it looks very much to me in these public/private partnerships that they are not so much a partnership really as what they are the public sector take all the risks and you take no risks at all and you end up with your profit at the end of the day?

(*Mr Aldridge*) I listened to the debate about risk. You take risk where you have an ability to be able to influence the decisions around it. Where you cannot influence those decisions commercially nobody is going to take a risk, you cannot possibly do that. You assess what your risk is. The greatest risk we have in this, and it is not something that has been touched on, is the reputation side of us. That is something you cannot always price in. You do not take risks where you do not feel that you have control. We had no control over the decisions that were going to be made. What we have said going forward is that we are not going to bid in those circumstances again.

120. That is very refreshing. How many contracts do you have with government just as a matter of interest.

(*Mr Aldridge*) We have in all about 300 contracts.

121. What are they worth?

(*Mr Aldridge*) We have about ten contracts with government.

122. And what are they worth?

(*Mr Aldridge*) They are worth just short of a billion over the life of the contracts.

123. I have only got a few seconds left, I suspect. How much money do you expect to recover from this scandal and the fraud? How much do you expect to recover as a matter of interest?

(*Mr Normington*) I do not know, I am afraid. I just cannot say that yet. We are pursuing it and we will seek to recover tens of millions of pounds. I do not know whether we will do that, partly because the big money is probably with the 150 providers who are in the serious category and 99 of those are with the police and we have to pursue the criminal case first.

**Mr Steinberg:** Thank you.

**Chairman**

124. Why did you not put Capita on the project board?

(*Mr Normington*) Because at the time the whole model of this was we were buying a service, the project board takes the decisions and it conveys them to Capita. That was the way in which it was normal to run these relationships two or three years ago. I think that is wrong, we have learnt that, but that was why we did it as far as I understand.

**Chairman:** Thank you.

**Mr Rendel**

125. Mr Normington, you have mentioned on several occasions that there was a specific manifesto target that had to be met and you as civil servants obviously had as your duty to meet the target that you had been set. If there had been no specific target but just a general wish to introduce this scheme, would the scheme have been introduced slower?

(*Mr Normington*) I do not know. Possibly. It is a hypothetical question. There was a wish to get this programme up and running. I guess if there had not been that specific target date of 2002 it might have been possible to do it slower. There was a feeling that we had been spending three years at it and we had not made any progress.

126. Which would you have preferred to do, to roll it out on a more steady, slower basis or to start the whole thing later when you had got it fixed?

(*Mr Normington*) With hindsight we should have spent more time testing the processes and the systems to destruction before it was introduced, so we should have introduced it on a slower timescale.

127. If there had not been this specific manifesto target when the number of bidders fell to one would you have gone back to a re-tendering process of some sort or were you always happy to go ahead with just one bidder?

(*Mr Normington*) I am never happy to go ahead with one bidder because it reduces your choice, but when we decided to go ahead with Capita we believed that they could operate this contract and provide us with the service needed and accounting officers have to be confident about that whether there is one bidder or ten.

128. So if there had been no manifesto target date you would still have gone ahead with just one bidder left?

(*Mr Normington*) I think we probably would, yes, because we were satisfied that Capita could deliver it.

129. Let me ask you a question about the quality of the providers. It does seem to me one of the odd things about this scheme is that you do not have any means of testing the quality of the providers but you seem to have relied entirely on the people using the service to tell you whether the providers were any good or not. Firstly, does that not endanger the clients in that if they happen to end up with a provider who is not any good they could waste a bit of their money and quite a lot of your money finding that out, and quite a lot of time obviously, and it might make it difficult for them then to look for another course that might be relevant to what they need?

(*Mr Normington*) I believe it was the fatal flaw that there was not more checking of providers. I believe that was the absolutely fatal flaw in the whole thing. The design was that these were adults who would be putting some money of their own in and, therefore, just as adults purchase services of all sorts we ought to be putting the onus on those adults to make the choices.

130. In particular some of the groups that you were targeting were those who were not very fully educated up to that point, that was the whole point, to go for those who had not got very many skills, if



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you like exactly the sort of people who would actually find it quite difficult to judge whether a particular provider was going to provide a good training course or not.

(*Mr Normington*) I think that is fair comment although there were intermediaries we were trying to use in the scheme. The best things that happened in the scheme were some of the small scale pilots within the scheme where we were trying to use intermediaries like community groups, trades unions, to provide the kind of advice that those people needed. Where we ran those small scale pilots it was undoubtedly the case that where there were trusted intermediaries who could offer that advice (a) the training was better and (b) the individual got better advice about it. I think that tells us how we ought to be designing the scheme for the future.

131. Your statistics show, do they not, that 45% of those who were on this training actually heard about the training first from the providers, not through community schemes or anybody else but directly from the providers.

(*Mr Normington*) Indeed, it was designed partly so that providers would do the marketing of the scheme.

132. Which may be cheap for you but it may also lead to a waste of waste of money as appears to have happened.

(*Mr Normington*) Yes, both those things are true. It was believed that if we could bring new providers into the scheme they would reach individuals who would not normally be reached by the normal mechanisms.

133. And they were provided with courses that were not appropriate for the client's needs.

(*Mr Normington*) That, as it turned out, was the case to some extent.

134. Have you decided, therefore, that you will not use this method in the future?

(*Mr Normington*) We have decided there is no way we are going to use this method in the future, it would be absolutely idiotic of us to do so.

(*Mr Lauener*) Could I just give an example of how being more selective upfront about the providers that are involved yielded dividends. With the community group projects, which were quite small scale, we found there that 14% of the participants were from ethnic minority groups compared with five per cent nationally, 22% of those that took part had no qualifications before they took the learning compared with 16% of the national scheme. I think that does show that if you get it right upfront then you get better results.

135. I am glad to hear that. It does seem to me that there is also a further worry that if you leave it up to the people who are being trained to find out firstly whether the course is any good or not, if they find out it is not I am not quite sure how you then expect that information to flow to the others who might be wanting to take up that sort of training. Almost by definition these people will not necessarily be in contact with others who might be looking for the same sort of training.

(*Mr Normington*) I think that is fair comment unless there are intermediaries who are advising them. We know that in all training programmes

where we are trying to reach people who are not interested in training, or have not traditionally trained, that you should have intermediaries in those programmes because people need good advice to find their way round the training. That was not the case sufficiently here.

136. Can I go on to the legal advice that you were apparently given that you needed to give six weeks' warning of a shut down. It is in paragraph 3.4. You did, in fact, shut the scheme down four weeks later.

(*Mr Normington*) Yes.

137. On an emergency basis when you thought that there was a lot of fraud going on.

(*Mr Normington*) Yes.

138. Does that leave you open to any valid claims either from providers or from the people doing the training, that they were not given sufficient warning?

(*Mr Normington*) Some people have said that, although we have not yet been pursued through the courts on that. We took legal advice again on the day that we stopped the scheme dead in its tracks. We believed that the public interest was so great on that occasion that we had no option but to close the scheme down.

139. Even if it was illegal?

(*Mr Normington*) We did not believe that because of the overriding public interest it was an illegal thing or an unlawful thing to do on that day. We believed it was absolutely essential to protect clients.

140. You still believe it would have been illegal to close it down four weeks earlier? You had to have the information on the fraud before it became legal to close it down?

(*Mr Normington*) There was a debate about the notice period we had to give. It would have been unreasonable to have closed the scheme down on 24 October, which was when we announced our notice period. There was a debate about how long was reasonable notice and our legal advice was that on the basis of the information we had then six weeks was a reasonable period.<sup>8</sup>

141. I am concerned that there may be some who were trying to provide this training under the old scheme, the scheme which you closed, who may be put off now from providing training for a successor scheme. Have you analysed at all how many people may have been put off working with the Government in future because of what you have done to them on this scheme?

(*Mr Normington*) We have had a lot of consultations with legitimate providers since we closed the scheme about this. I cannot say how many people have been put off. A lot of the legitimate people in the system are further education colleges, well known training providers. It is very unlikely that they will be put off. They will be much more cautious about what a successor scheme is and we have not decided what that successor scheme should be.

<sup>8</sup> Note by witness: Legal advice on reasonable notice was that four weeks would have been acceptable; six weeks was preferable.

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(*Mr Lauener*) A lot of legitimate providers have said to us that they want tighter checks on the providers taking part because legitimate providers feel denigrated by the activities of those that we are pursuing now.

142. You have said on various occasions that you would like the investigations to go faster, that it is taking a long time to collect the evidence of whether fraud has taken place or not. Can you go into that in a bit more detail because you simply say it was complicated. You have not really told us what is the sticking point that is making it take so long to find out whether particular training courses were being provided fraudulently.

(*Mr Normington*) I might ask Mr Lauener, who has been doing a lot of the work on this, to give you the detail but basically this is a question of evidence. We have to collect the evidence from the individuals that fraud has taken place.

143. As a layman it looks like a few questions would be enough. You could do that in a week or two.

(*Mr Normington*) Maybe, do you want to try and explain?

(*Mr Lauener*) Let me talk about the way we are gathering evidence about the problems. We have to come at this from a number of sources. Firstly, our main indicator is the complaints we have had from members of the public and we have analysed these by provider so if a provider has had a lot of complaints we say there must be something to look at there. Secondly, when we closed the scheme down we wrote to everyone on the individual learning database. We had some returned mail "gone away" and as we followed that up it became clearer that there were some cases where there were fictitious names and fictitious addresses, quite a small number but again evidence of serious fraud. We followed up then the providers that we have had concerns about by contacting quite large volumes of learners directly on the phone or by mail and we have visited providers' premises and looked at the records that they have got. That process, not least with the large number of providers we have got, does take quite a long time.

144. Two years?

(*Mr Lauener*) We need to assess the evidence we have got as to whether it is the kind of problem where we ought to pursue a recovery but not sufficiently serious to involve our special investigations unit, or whether it is sufficiently serious, and some of the frauds that we talked about earlier certainly are sufficiently serious, that we need to discuss with the police whether there is enough evidence to pursue prosecution.

(*Mr Normington*) Can I just clarify this point about two years. I was asked a question I think about the scale of the fraud and I said we might not be fully clear about that for two years. It does not mean to say that there is not a conveyor belt of providers here, 99 of whom are with the police, another 60 are with our serious investigations unit who are potential police cases. There are another 158 who are being pursued now for recovery of money and there are 320 more who are being investigated and may move down that conveyor belt or may be cleared. It is not a static situation. All the time we are moving people down

this conveyor belt. At the end of the day, this is why I answered the question about two years, if you are proceeding to prosecution that does take time. The police and the Crown Prosecution Service need to have that evidence and to be sure of it. Only then will we pursue those people who are being prosecuted for criminal offences for recovery.<sup>9</sup>

**Chairman:** We will have to stop it there.

**Mr Davidson**

145. I wonder if I could continue this question of fraud. Are fraud cases being pursued with the same vigour as benefit fraud cases are being pursued?

**Mr Field:** More, we hope.

(*Mr Normington*) I am not sure really.

146. I wonder if I could ask the National Audit Office, you mentioned that some cases might not be sufficiently serious to be prosecuted, can I seek clarification?

(*Sir John Bourn*) All Government departments accept that they have a responsibility to pursue fraud cases. I think that where the difference is between, say, the present Department being examined by the Committee and other departments like Work and Pensions is that Work and Pensions have more work of this kind and they have more of a system for doing it. I think given the nature of the Department for Education and Skills' work, they have less experience of handling the matters because they do not have so many of them. I do not think that there is any difference in recognition of the responsibility to pursue fraudulent cases but I think there may be a difference in the outcome which has a lot to do with different levels of departmental experience.

147. If people want to try and cheat the Government they are better via the Education Department than through the benefits system?

(*Mr Normington*) You would not expect me wholly to agree with the Comptroller and Auditor General on this. We are pursuing this with great determination and vigour. It is true that we do not deal with fraud all the time in the way that the benefits system does. I happen to know quite a lot about the benefits system and when I was responsible for part of it we did have a large amount of special investigation work, and they were full time on that. We have had to put people on to this, of course.

148. You will be an expert in the comparison then if you worked in the benefits section. How does it compare? Is it easier to cheat the Education Department than Work and Pensions?

(*Mr Normington*) If you run a scheme like this, it is possible to defraud the Department for Education and Skills.

149. That is a yes.

(*Mr Normington*) I hope we will never run a scheme again like this.

150. Can I ask in terms of prosecutions that have taken place—I think there is one mentioned here—can you clarify what the penalty was in those cases and what the scale of the offence was?

<sup>9</sup> *Note by witness:* There are in fact 314 more providers who are being investigated.

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(Mr Normington) There is one conviction. Do you know the conviction?

(Mr Lauener) I think there was a prison sentence for the conviction. I cannot quite recall the details.

151. If we can have that confirmed to us.

(Mr Normington) Yes.<sup>10</sup>

152. Can I ask in terms of lessons to be drawn from this, would it be fair to draw the lesson that if you make a universal provision of the sort that you did here then disproportionately it will be the better off, the better educated, those who need the provision the least who will access it most? That is surely (a) true and (b) not rocket science and ought to have been taken into account by the Department in drawing up this scheme?

(Mr Normington) It is the case always that if there are universal schemes people who are better educated and better informed gain access to it more quickly.

153. Since the better educated were not the target group, why was there such a lack of focus in the targets?

(Mr Normington) I need to clarify this. It was a deliberate decision that the scheme would be universal and that was partly because we do not assume that just because people have got degrees they have completed their learning, particularly since one of the priorities in the scheme was IT skills. That was a major priority in the scheme. Actually there is a need in the population as a whole to stimulate people to learn IT skills.

154. So a lot of the learners being graduates is actually a cause for congratulation or not a cause for any approbation?

(Mr Normington) We did not set out to exclude graduates, they were not a target group. It started out being a universal scheme to kick start people into learning, including graduates, but it had within it some target groups who were not graduates.

155. Were the targets which were set for the various people who were recorded to include provision to focus their attention on the need and the desire to attract in previous non learners?

(Mr Normington) People who had not done learning before or not recently or very low levels of skills and qualifications, those were the sorts of people, yes.

156. Can I draw another lesson from this. We are in favour in principle of a light regulatory touch but if you do that clearly it opens up the potential for fraud, does it not? What we have had here, am I right in thinking, is a reduction in bureaucracy, an increase in fraud and if you let the private sector get their snouts into the trough then there will be a proportion of them who will try and rob the system blind.

(Mr Normington) There clearly was fraud in the system so some of what you said is true. If you are going to take a decision to have very limited checks at the gateway to the scheme you have to think what the consequences of that are downstream and you need to have much better monitoring downstream. You have to assume there is going to be greater fraud and you have to pick it up in your monitoring. It was not necessarily the wrong decision, although I think

it probably was, it might not have been to say a light touch at the beginning but you then have to put in checks further down the system and that was not done.

157. Can I also ask about the policy assumption that there seems to have been here about the merits of competition as a device for raising quality amongst providers. Am I right in thinking given the scale of fraud that that did not work either?

(Mr Normington) I am not sure we were trying to get competition in the system.

(Mr Lauener) We were trying to bring new providers in.

158. The competition between providers was seen to be a way of raising the quality of providers because buyers would then be aware. Am I right in thinking that it did not work basically?

(Mr Normington) We were certainly looking to bring in a much wider range of trainers or providers than had ever been in there before so there was more choice for the individual. In that sense I suppose there was more competition. Competition does not quite get what we were trying to do. We wanted more choice for individuals, we wanted trainers who had not traditionally gone into the normal system under the TECs and so on.

159. You wanted presumably informed consumers and because you did not have this then the attracting of new providers did not actually result in an increase in the total human happiness in a sense because people were not necessarily buying wisely.

(Mr Normington) There was some good learning within the scheme and we did bring in some small providers who would not otherwise have come into the scheme. Of those 8,900 the vast majority actually were good providers or new providers who had the potential to provide training which had not been provided before. I do not think in that sense it was a complete disaster, it is just that there was this group of providers who did try to abuse the scheme.

160. Okay. Can I ask about the question of implementing policy quickly. Part of the defence, unless I have misunderstood, was that this whole scheme was being drawn up very much under the pressure of time. Are you saying that a scheme has got to be slow to be okay?

(Mr Normington) No. I am a bit cautious about resting on the defence about time. After all, a lot of time was spent following the 1997 election trying to find the solution. It was the time that was spent failing to find the solution that squeezed the time for the rest of the Parliament. There was this key moment when virtually all the work that had been done on designing the scheme came to nought and the nature of the scheme changed. That happened at the end of 1999 and suddenly the timescale became very tight. We should not conclude that you do not need good, speedy timescales otherwise you never get anything introduced.

161. Indeed. If we start from the time when the first scheme, as it were, collapsed or was withdrawn, part of the defence seems to be that the shoddiness of the second scheme was because of the pressure of time that you were working under. I find myself in a quandary as to whether or not the public sector is

<sup>10</sup> Ev 28

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always slow and ponderous and the private sector always corrupt and rapacious. What do we do in these circumstances if we cannot rely on yourselves to be speedy and the private sector to be honest?

(*Mr Normington*) I am not sure that I know how to answer that one in truth. In the end we were speedy and it failed.

162. Indeed.

(*Mr Normington*) Whether it is slow or fast you need to implement it properly and we did not implement it properly. Some of what happened here was not about speed, it was about the way in which it was implemented. I cannot guarantee that if it had been implemented slower everything would have been right about it.

163. It is a question of learning lessons and the question of whether or not this is a valuable learning experience. My colleague, Mr Steinberg, has already made the point that he thought that the Education Department had already had valuable learning experiences from which nothing seems to have been learned. What confidence can we have that we are not going to be here in another little while with another educational equivalent of the Dome?

(*Mr Normington*) I and my senior colleagues are doing everything possible to make sure these lessons are learned. I have very big programmes in place to implement all the lessons from this programme, including training people properly, making sure that no-one manages contracts who is not trained, including the lessons about risk assessment are learned, about project management are learned. I will give you my assurance that we will learn those lessons. I guess there will be mistakes down the road but I hope there will never be anything on this scale.

164. My worry is that by the time we come to the next valuable learning experience you might very well have been promoted somewhere else.

(*Mr Normington*) I am not going to go anywhere unless somebody moves me.

**Mr Davidson:** Make some mistakes and you are safe.

#### Mr Williams

165. You were 74 million over budget on this programme. Where did the money come from?

(*Mr Normington*) It came from the Department's underspend which was quite substantial.

166. PFI programmes?

(*Mr Normington*) No, there were a number of reasons for that underspend.

167. We will not go into too much detail.

(*Mr Normington*) It is not attributable to one place, there was a significant underspend in the Department's budget.

168. How many schools could you have built for 74 million?

(*Mr Normington*) Three.

169. Three schools.

(*Mr Normington*) It depends where they are. It can cost anything from 15 million.

170. Three schools would have been better off if that money had been available for school construction. How many people do you think have been deprived of this one-off educative opportunity because the money was defrauded from them as well as from you?

(*Mr Normington*) I do not know the answer to that.

171. You are talking of tens of millions, not ten million. It must be more than 20 million. I do not know whether you would like to put a ceiling on it. You say tens, that is very vague. What sort of figure do you have at the back of your mind where you think "oh lord, it may get that far"?

(*Mr Normington*) In terms of money that was.

172. That was defrauded.

(*Mr Normington*) For fraud and abuse it could be up to 60 million.

173. Up to 60 million?

(*Mr Normington*) But that is the total amount of money that might have been improperly spent under this programme.

174. So that is the money that would have paid for well over a third of a million people to go through the process?

(*Mr Normington*) It might.

175. Well over.

(*Mr Normington*) One of the problems with this is some of the people whose names were used and who were signed up for training either did not want it or did not need it. In a sense that was the nature of the fraud in many cases, that they were signed up but actually they did not want it. There are probably quite a lot fewer people who are disgruntled about this because they did not know that they were on the scheme in the first place.

176. When you were talking about fraud a little earlier the comparison was drawn with the fact that you are the Education Department and Sir John agreed that you are less likely to come across fraud than, say, social security. What was your predecessor's job before he became Permanent Secretary of your Department?

(*Mr Normington*) He was the Chief Executive of the Benefits Agency.

177. I thought he was. I seem to remember him as chief witness on various occasions. So he was well aware of the problems of fraud. You have described this as an innovative programme and you have described it as a programme the like of which you had never done before in the Department and you also said that you knew the Department would not be able to do it itself. All of this would suggest higher scrutiny, not lower scrutiny, would it not?

(*Mr Normington*) I said that we could not run the system to link the provider and the individual together, we had not got the competence to do that, but we thought we had the competence to purchase the contractor who could do that.

**Mr Williams:** You see this brings us back to an old, old conundrum for this Committee and I happen to be on the losing side on it. I actually believe that when there are cases where the performance has been absolutely abysmal, and I think that is the only way to describe the performance of the Department here, that the people who were there at the time should be

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sitting where you are having to sit instead of you eating humble pie and also not being able to explain how certain decisions were arrived at that were not your fault because you were not there and you were not party to the discussions. I hope my colleagues will sign up to the group on this Committee that agree with me —

**Mr Field:** Shall we vote now.

178. Yes, we will have a show of hands for future hearings.

(*Mr Normington*) I think that is the approach they are adopting in the Welsh Assembly, is it not.

179. I am glad to hear it. It is a pity it is not done more often here. We do it once or twice and then letters come in from ministers and most senior people in the Civil Service complaining it is not fair to bring people out of retirement to explain what they did before they went into retirement but to leave someone else to do it. Again, several of my colleagues—Angela and David—have touched on the illogicality of saying that you are going to leave to the learners the responsibility for assessing the value of the courses. One of the main aims here was to get into the IT area, was it not, that was a major objective?

(*Mr Normington*) Yes.

180. Now do you know of any area, other than deep science, that is more prone to gobbledegook as far as the uninitiated are concerned when they are trying to find out what it is all about? How can you assume that people would not know what they should be looking for? By definition we are going to be able to make the judgment the Department chose not to make for itself. It was crazy, was it not?

(*Mr Normington*) This morning before I came here I had another conversation with those who were there when these decisions were taken and I asked these questions. With hindsight they were the wrong decisions. At the time they did not believe they were taking the wrong decisions.

181. You are dealing with intelligent people, you are dealing with people who are supposed to be immersed in education—

(*Mr Normington*) That is why it is inexplicable.

182. I want to finish my question. They did not understand the people you were targeting to get IT education were the people who were least capable of determining whether what was on offer was in any way relevant.

(*Mr Normington*) Clearly there was a belief at the time that those individuals would be able to make those choices, just as you do as a purchaser in life.

183. None of the people involved who you asked this morning, who are sitting behind you, might be able to tell us why they came to that decision? How many have you brought with you, officials?

(*Mr Normington*) Apart from my colleague I have three people behind me.

184. None of them—

(*Mr Normington*) I think some have come for the spectator sport.

185. They did not come expecting to be involved. I was intrigued by one of your comments that you indicated—I believe it might have been to Mr

Trickett—that you are in discussion about the termination of a contract. Why are you in discussion about that? Were any penalty clauses triggered by what happened?

(*Mr Normington*) I just need to be clear about this. We had some discussions with Capita last spring about whether we would move on to a second Individual Learning Accounts scheme and we agreed in principle that we were going to do the work on that and we would work with Capita on that because they had all the knowledge and expertise which would be lost otherwise. More than a week ago ministers decided that they were going to pause because they wanted to take a wider look at the way in which we funded individual learning and they did not want to go ahead straight away with a second scheme. In those circumstances we have to have a discussion with Capita about our costs, their costs, their liabilities, our liabilities, that is what we are doing at the moment.

186. That is interesting. Was this project not profitable, Mr Aldridge?

(*Mr Aldridge*) Yes, it was profitable.

187. It was profitable.

(*Mr Aldridge*) Yes.

188. A good reasonable working profit. You got what you would have expected from it? I am not making any snide comments.

(*Mr Aldridge*) We always operate under an open book accounting arrangement so everybody would know what our profit level was. Equally we incurred penalties—service credit as it is called—for under performance.

(*Mr Normington*) There is a profit share arrangement in the scheme so that some of the profits come back to Government.

(*Mr Aldridge*) In the reduced costs.

(*Mr Normington*) Yes.

189. We assume most profits went right outside Government and right outside Capita in fact. Does it not seem rather strange that what has been described by the Permanent Secretary as all the knowledge and expertise you have here which they would be very loath to lose, you must be the front bidder if you care to go for it, now suddenly and inexplicably it was decided although it was profitable you did not want anything else to do with it?

(*Mr Aldridge*) No, it is not like that at all. We have had a team of people working together on what could have been an ILA 2 for some time. The decision which ministers have made I think is entirely the right one. They want to review the whole aspect of adult learning, it is not only individual learning. It is quite right in those circumstances that the contract which we have for delivery of Individual Learning Accounts would cease.

(*Mr Normington*) I would be very surprised if the successor scheme looked anything like this, indeed I would be alarmed if it looked like this.

**Mr Williams:** I think we would all be alarmed.

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**Mr Bacon**

190. Sir John, may I start with a question to you. Mr Normington has answered about the project boards and the fact that it was not standard practice in the last two or three years to have project boards leaves me with some sympathy for Capita but also a little bit of suspicion because it does not sound to me, from what I know of practising purchasing and consultancy, like standard practice. I am looking at the 1994 report on the Government's use of consultants prepared by the Cabinet Office in which it says in paragraph 4.44 "On some projects there may be a requirement simply to have a project manager alongside the consultants. On others a joint team will be set up often using some of the organisation's best people to give them a valuable learning opportunity." Is it possible the NAO could give us a note on areas in different parts of Whitehall of project boards working alongside with the purchasers, the department, the provider, alongside one another on the same board?

(*Sir John Bourn*) Yes, I will do such a note, Chairman.<sup>11</sup>

191. That would be excellent. Mr Normington, could you say how much money from this scheme went to animal rights extremists?

(*Mr Normington*) I cannot tell you off hand, no.

192. Do you have an estimate?

(*Mr Normington*) I do not think we do. Do we have an estimate?

(*Mr Lauener*) We could probably get one quite quickly from colleagues at the back.

193. Could you send us a note. Is it correct when the managing director of Huntingdon Life Sciences was attacked by animal rights extremists a large wadge of Individual Learning Account application forms were found in the back of his car?

(*Mr Normington*) I do not know that.<sup>12</sup>

194. Perhaps you could include that in the note. I am curious about this question of quality assurance. I can understand that from the point of view of the people who are to receive the training if you are trying to reach out to people who have been marginalised and not had training, but which baboon came up with the idea that you could not have quality assurance for the providers and get anything other than abuse?

(*Mr Normington*) That was a decision taken in the Department.

195. You used the word "hindsight", did you not?

(*Mr Normington*) Yes.

196. It is correct you did not need hindsight, is it not, it is correct there were very clear warnings. I have got a letter here from Mr James O'Brien of Pitman Training Group, a very reputable training provider, in which he says "As a responsible training provider we were worried about the scheme. The lack of detail left the scheme open to abuse which would not be helpful either to the initiative itself or the majority of the training sector". Would you agree that he was right?

(*Mr Normington*) He was right.

197. Why did you ignore the letter? It is addressed to the Secretary of State.

(*Mr Normington*) I have looked back at this. It was specifically about the decision to impose a cap on the 80% discount. It was a specific issue about that, it was not a generalised thing although clearly he was worried.

198. He was not just talking about the cap, he does go on to talk about the cap. He says, and I will quote "As more details of the scheme have emerged we have expressed our concern both to DfES and to Capita that there was insufficient detail in the rules". He was making a general point also and he goes on to say he was not the only one who warned you.

(*Mr Normington*) He was making a general point that people were abusing the lack of a cap on the 80% and saying that therefore they were unscrupulous providers who were willing to make money out of this scheme, yes.

199. Is it not blindingly obvious that if you do not have quality assurance for the providers that you are inviting rogue providers in?

(*Mr Normington*) There should have been a decision to quality assure the providers, yes.

200. Have you seen this document, *Responsibilities of an Accounting Officer*?

(*Mr Normington*) Yes.

201. So you have read it?

(*Mr Normington*) Yes.

202. It talks about the responsibilities of an accounting officer to see that appropriate advice is handed to ministers on all matters of financial propriety and regulatory and more broadly on all deliberations on prudent and economic administration. It goes on to say things you must do if you are worried and you must seek direction and provided those procedures have been followed the PAC can be expected to recognise that the accounting officer bears no personal responsibility for the transaction. Can you say why a direction was not sought?

(*Mr Normington*) Because there was never a dispute between officials and ministers about the design and nature of this scheme, therefore there was never the need to seek a direction. It was not the case, I regret to say, that officials in my Department were saying to ministers "you should not do this" or "you should not do it this way", it did not happen like that. It was a perfectly amicable set of discussions.

203. And you all agreed?

(*Mr Normington*) Everybody agreed.

204. I am looking at the evidence that Mr John Healey gave when he was Adult Skills Minister to the Education Select Committee. He was asked how much the overspend was and after some intervention by the Chairman on behalf of Mr Shaw, one of the Members, because he could not get a clear answer, the answer came as to how much was the overspend: "We cannot give you a sense, even a ballpark, I regret to say, of what the possible overspends are going to be." In other words, structurally the system was designed such that it was impossible to even know what the overspends were. Mr Healey goes on to say

<sup>11</sup> Ev 30

<sup>12</sup> Ev 28

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later “We simply were not able to control the activities, conduct the investigations, protect the proper use of public funds and the interests of Individual Learning Account holders by working with the system we had set up”. Given that you set up a system like this, when you came as accounting officer in May 2001 even at that point could you not have said “this is a system that breaches my legal responsibility looking after public funds in so serious a way that, minister, I think it should be stopped and if you want to continue it then I shall need direction”? You could have done that, could you not?

(*Mr Normington*) I could if I had seen that was the case. When I arrived in May 2001 I did have a briefing about it but no-one was briefing me that this was a problem.

205. Is it correct that the £199 million was for two years?

(*Mr Normington*) Yes.

206. So when you came in as accounting officer in May 2001 we see from an answer to one of my colleagues, Mr Turner, to a parliamentary question in August 2001 you were spending £26 million a month and in September 2001 £25 million. I do not have the figures for May, June and July, they are not in that question. At that running rate you would have been spending about £300 million per year, in other words £600 million over two years, so you were running at about three times the rate of budget by the mid summer, were you not?

(*Mr Normington*) By the late summer, but that was why we stopped the scheme.

207. You did not stop the scheme until—an announcement was made in October, was it not?

(*Mr Normington*) On 24 October.

208. At the end of October. But even in August and even in September you were running at a rate of three times what it was supposed to be.

(*Mr Normington*) First of all, the clear belief was that this was a successful scheme and we were prepared, therefore, to fund it above its budget because we believed it was reaching learners who had never had learning before. Secondly, under my leadership of the Department we took a series of steps from July onwards to try to stem the growth of the scheme which failed. Every time we took a step the scheme was attacked from another quarter. You could probably say that we should have closed it a few weeks earlier but I think that is with the benefit of hindsight. We took some decisive action, and certainly the NAO Report says that, that we closed the scheme promptly when we realised that we could not stop it any other way. That was what we did.

209. One of the problems which Mr Jenkins referred to was that you have caused a lot of damage to genuine training providers, and there were genuine training providers who were doing good work. They are now finding that they are having difficulty having a dialogue with the Department. In a letter I received it says that genuine training providers are finding it almost impossible to enter into any dialogue with the Department to validate the assertions that the Department has made or understand the evidence upon which they are based. Those affected say that even now they do not believe that the Government

has the capability to understand where and by whom serious abuse has taken place. They point out that the serious abusers entered this market solely to exploit the ILA loopholes and they would have closed their operations by now. Angela Eagle has gone now but she said that you were deluded earlier thinking that it would not be abused and I think you are still deluded now thinking that you can chase after them for all this money. You talked about big money but the big money is in accounts in the Caribbean and in Switzerland by now, is it not?

(*Mr Normington*) It may be but I do not think that stops us trying to get at those who we know were culpable and that is what we are trying to do.

210. But in the process the genuine ones are being screwed, are they not?

(*Mr Normington*) The genuine ones have been paid for the training that they have done. We continue to pay.

211. Are you saying that there are no genuine training providers who are owed money by you who have not had it?

(*Mr Normington*) No, I am not saying that. Almost all the money that we owe has now been paid to what we believe are legitimate training providers. I cannot say that the money we are withholding is withheld with absolute certainty from the right people, but we have paid a substantial amount of money over the last few months to the legitimate training providers. About 95% of the claims outstanding have now been paid.

(*Mr Lauener*) We are talking about 60 or 70 million, most of which we expect not to be legitimate claims.

212. You said that there were 99 cases with the police.

(*Mr Normington*) Yes.

213. West Mercia Police have told me that they are sitting on a lot of files that they do not know what to do with because there is no case to answer.

(*Mr Normington*) I do not know that that is the case. Not that I know of.

214. Could you let us know in a note what advice you have had from West Mercia Police about this?

(*Mr Normington*) I do not believe that is so.<sup>13</sup>

215. I would like to ask a question about the contract. It states in the report that there was no contract between the Department and training providers. As I understand it, and I have talked to lawyers who say the same, a contract requires two things, it requires an offer and it requires acceptance and if there is consideration as well that helps. This had all three, did it not, it had an offer, it had acceptance and it had consideration?

(*Mr Normington*) I think so far as there was a contract it was between the individual and the provider, I do not think it was with the Department. The offer was to the individual. The offer of the training was to the individual and the payment was to the provider for that individual's training. I am not a lawyer.

<sup>13</sup> Ev 29

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216. Even though you were encouraging the market, and in fact Mr Grover said in his evidence to the Select Committee that you were trying to widen the base and you said the same this afternoon, you do not think you bear any responsibility for what happened to the training providers?

(*Mr Normington*) We have done our best to pay for the training that took place and we have said that we will not pay further than that. We have tried to meet all legitimate claims.

**Mr Bacon:** I have run out of time.

**Mr Field**

217. Mr Normington, I thought your response to Alan Williams was interesting when he claimed that we have got the wrong person before us today and you carefully pointed out that in the Welsh Assembly they have the person who made the decisions. I hope that is something the Committee will follow up. I am not about chasing you, I am about looking to the future so that in a sense we can look back and see that this was a rather expensive Individual Learning Account against fraud for the Department and other departments. Five years ago the Prime Minister launched a strategy which he promised taxpayers would be across Government about countering fraud. Have you ever read that document?

(*Mr Normington*) I do not recall reading it, no.

218. You have meetings every week of Permanent Secretaries, have you ever had on the agenda how you best counter fraud across Government?

(*Mr Normington*) We have had some discussions about that and the Office of Government Commerce, which has been set up in recent years, has that at the forefront of its drive to improve contracting across government. I have described this story to my colleagues and we have had a general discussion about that and the action is with the Office of Government Commerce on whose board I sit.

219. Can I ask you not to leave it with Government but to keep it with you and the Permanent Secretaries for these following reasons: one of the recommendations the Prime Minister made was that in any new initiative the Government would undertake to try and design out fraud in the system. If that had been followed by anybody in your Department some care would have been taken to ask other departments which devised new benefits or new allowances what steps should be taken. That was not followed at all in this case, was it?

(*Mr Normington*) That was not and that is one of the lessons we have learned and that is being done now.

220. Was not another lesson that when any department is taking on a new initiative they ought to ask the Audit Office to come in at the beginning rather than come in afterwards when everything has gone wrong?

(*Mr Normington*) I do not mind that at all. Often the National Audit Office does run alongside major projects and has lots of contacts with our own internal auditors. The books are open and they can come and look at anything. On the basis of this story I am happy to have anyone advising us and supporting us in trying to improve what we do.

221. The taxpayers' position would be strengthened, would it not, if the Audit Office was in from the word go in designing the process and reported to this Committee if it was unhappy?

(*Mr Normington*) That would be a possibility, yes. To some extent because of their resources I think they rely on our internal audit to do that. There are lots of contacts with our internal audit but I am open to those sorts of suggestions.

222. If there had been contact with other departments, which the Prime Minister promised five years ago, you would know the Department for Health, for example, has specifically designed software which throws up patterns of fraud from contractors.

(*Mr Normington*) Yes.

223. And had you employed similar software taxpayers would have been saved a great deal of money.

(*Mr Normington*) That is a very fair point and that point is well taken. Of course it is after the event but that is true.

224. When your predecessor was looking at placing this contract, and I assume you have looked at the file, and it looked at Capita, is there anything in the file which suggests that Capita was running anything successfully?

(*Mr Normington*) They run a number of contracts for the Department, the biggest I think is the teachers' pension scheme which they have run successfully for us for five years. It is just being re-tendered at the moment. We have evidence of working with Capita and it has been very successful.

225. For example, had your predecessor picked up the phone to the chief officer of Westminster, which is a couple of blocks away, he would have been told that the very best housing benefit department in the country had been reduced to rubble by Capita. That might just have sounded warning notes to you.

(*Mr Aldridge*) I would like an opportunity to answer that.

226. I will bring you in. I am talking to the Permanent Secretary.

(*Mr Normington*) We always take a check on the people we are about to do business with, particularly where it is a large scale contract like this. We had evidence of working with Capita which had been successful.

227. Could we have a note on the successes?

(*Mr Normington*) Yes.<sup>14</sup>

**Chairman:** Mr Aldridge, do you want to come in?

**Mr Field:** Can I just bring the Comptroller in first?

**Chairman:** Yes. I just want to give Mr Aldridge the opportunity to answer —

228. We have had the teachers' pension scheme running without hiccups for at least 60 years under one framework. When did you last check on how well it is all operating?

(*Sir John Bourn*) We audit the teachers' pension scheme every year so there is a certificate provided by us on the way in which the finances are managed.

229. Mr Aldridge?

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(*Mr Aldridge*) My comment, Mr Field, would be that we have been in business for 17 years. You do not stay in business for 17 years if you have a record that is in line with what you are suggesting. We have over 300 major contracts, 92% retention rate of those contracts. We have 25,000 customers and, thankfully, those customers are very happy with the performance we have. In the contract you mentioned with Westminster you may like to know that the contract has been extended on two occasions. The performance of that contract is way ahead of what was achieved by the in-house team when it was transferred. It had problems when it transferred. You know a lot about housing benefits and you know what a difficult area housing benefits is. We have turned that contract into a very successful one. If you have a conversation with the chief executive of Westminster, as you suggest, I think Mr Rogers will support me in what I have just said about that.

230. The problem is the chief executive of any authority that employs Capita has to admit they were wrong and also knows that Capita will have pinched their best staff. If you take the contract back the staff which you had previously are not in post or would not be in post?

(*Mr Aldridge*) I am enormously proud with Capita, which employs 18,500 people now, a company I started from scratch, over 10,000 of those people have transferred to us from the public sector. The whole company is enormously lucky to have the people we have got and has been a very successful company. When you made those remarks we wrote to you and asked if we could come and speak to you about what you said. It is not true that we strip people out. People who join us join us under TUPE and I can assure you that a lot of people who have joined us would not want to go back. They are developed, trained, we spend over 2% of our budget on management development. Our record in employment is 1% of those only in compulsory redundancy, 7% staff turnover, which is half that in the public sector, particularly in central government. This is a company that people like working with and, interestingly enough, that unions admire as well as customers. I am very proud of what we have achieved.

231. How much have you lost on this contract?

(*Mr Aldridge*) The loss in terms of—

232. You are presenting Capita as a success because it makes all these profits but how much have you lost on this contract?

(*Mr Aldridge*) Under the terms of the contract and what we were billed, we have not lost money on the contract. We have loss of our reputation in terms of our track record. I am enormously proud of the work that we do with the Department. The work that was referred to on teachers' pensions is quite phenomenal, what has been achieved and the people who have transferred to us and the way the service is being offered. That is what has been affected by that. I have watched with interest some of the comments that have made about our track record. Our track record is second to none.

233. You see we would still be building ships in Birkenhead if every time we had a fiasco the ship company still made money, but we ceased building

ships because when they made mistakes as big as this the company went under. You have presided over this farce and you are turning a profit.

(*Mr Aldridge*) The responsibilities that we had in this project, which I have not really had much chance to talk about here, have been very clear in what we had responsibilities for, what we did, how we advised and the fact that we were not part of the overall strategy and the way the thing was developed was an error and a big one. Some of the things that happened around that scheme, therefore, had an effect on and that is the reason why we are here today. You made a remark about the profit. We make 11% profit margins. What we do for local authorities and central government probably saves them between 15, 20 and 30%, so if you add the two together there is 40% inefficiency. We helped save some of that money in terms of public sector spend and we invest. There is a whole combination of things that Capita does and it is not possible to make simple statements and ask simple questions in one area, you have got to look at the totality.

234. One last point to the Permanent Secretary, if I may. When you are thinking about the lessons here and how you are trying to counter fraud in the Department, could I suggest that you look at the parliamentary answers you have given recently when, for example, I and other Members have been asking you about what your counter fraud strategy is, whether you think the answers were adequate or not?

(*Mr Normington*) I will do that, yes.<sup>15</sup>

**Chairman**

235. What has been happening to your share price recently, Mr Aldridge?

(*Mr Aldridge*) The share price has performed in line with the market.

236. Exactly in line with the market?

(*Mr Aldridge*) Better than the market actually.

**Chairman:** I think Mr Ian Davidson has a couple of questions.

**Mr Davidson**

237. Two points. The first is about the public sector comparator. I was struck by the point made by Mr Aldridge about his lack of access to the high reaches of the Department and therefore the ability to influence how things were progressing. Taking that into account, and also with hindsight, do you think that the public sector comparator that was arrived at when the contract was let was a fair and reasonable one?

(*Mr Normington*) I believe it was. We had lots of professional advice about it. It was a comparison with what it would cost to do this in the public sector and it was a properly constructed model. I believe it

<sup>15</sup> *Note by witness:* There are a number of Parliamentary Questions which have been answered on counter-fraud policy. The replies are accurate and detail fully the Department's policies. Ref HC Debate, 28 January 2002, cols 101W-102W; HC Debate, 5 February 2002, col 881W-882W; HC Debate, col 1541W-1542W and HC Debate, 15 May 2002, col 646W.

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was fair. It was in the context of a set of decisions, which we have discussed at length today, which were the wrong decisions.

238. I wondered particularly whether this question of access which seems to some extent to have contributed to the disaster might have been avoided had it been a public sector contractor undertaking the work that Capita had done, whether or not the culture in the Department, the organisation of the contract, would have been different in that the feedback would have been greater allowing the Department to remedy the difficulties?

(*Mr Normington*) It depends what had been set up but I guess if it was wholly within the Department the chances are we would have had more direct feedback. I am not really proud of that because actually we could not have run it in the Department. We did not have the competence to set up that kind of system.

239. The final point I want to make is to the gentleman from Capita. I was struck by the point about yourselves having made money out of what seems on the face of it to have been a disaster. Do you believe that your firm has any culpability for what has happened here?

(*Mr Aldridge*) We made money because of the process and the contract that we have and that is not uncommon so there is nothing which is different here. Do I feel that we could have done more? I think we could have done more but I have to say that the critical point is that we were restricted in doing more. I think that has come out in the NAO report. I feel that is one of the lessons which has to come out of this, it has to come out of it for us and I think it has to come out of it for the whole area of public/private partnerships. If we could have done that more I think that on some of the things which have happened, some of the lessons, we could have had a contribution to it and I believe that the expertise that the company has got would have been better used. Again that came out from the NAO Report.

240. In short, on the question of do you have any culpability, the answer would be no for the reason you have outlined and you bear no blame at all in any shape or form?

(*Mr Aldridge*) No, I do not think that is a fair comment at all. As I said to you, I should have said more to the Permanent Secretary, and I should have got the minister to express our concerns. The concerns we had, we had them for some time. If you look at what was around in the whole of the process that we were a part of, the management information which was there had all the information to do a lot of the things. If you look at the comparisons between us and we ran Scotland and Ireland, and you look at some of the comparisons there, there were things which we put into the pot. I think we did not feel that some of those things were at the right level and that is a critical point. I think we should have shouted more about that. There were key things around blank forms and distance learners where we felt very uncomfortable and that would have been part of it.

241. Do you understand my difficulty then about the situation? I was seeking to clarify whether you felt you had any culpability at all. You have indicated that you felt you did not have the degree of culpability, not as much as the Department. Can you

understand why we are a bit vexed at the prospect that you have not had any loss whatsoever, in fact you have made exactly as much money as you would have had the whole thing gone fine?

(*Mr Aldridge*) Under the terms of the contract we have not because we would have had a five year contract and it would have been a very successful contract in terms of what we all would have wanted, which was the whole scheme to be successful. We have penalties and those penalties are under discussion. As we said, we have a profit share so any profits above a level which was agreed, and in open book, have been shared with the Department in terms of a reduced price of what has been provided.

242. You are not sharing any losses the Department has made?

(*Mr Normington*) There is a discussion going on about the termination of the contract in which there will be an issue about the contribution that Capita makes.

(*Mr Aldridge*) There is an issue around, of course, what is under our control and what is not under our control.

243. I understand that.

(*Mr Normington*) Perhaps you could leave us to try and negotiate this.

#### Mr Bacon

244. Just a couple of questions, Mr Normington. The cash referred to so far was £273.4 million.

(*Mr Normington*) Yes.

245. £55 million for Capita, that is a separate amount from the £273 million?

(*Mr Normington*) Yes.

(*Mr Lauener*) The £273.4 million was the whole programme spend—

(*Mr Normington*) —Including £55 million.

(*Mr Lauener*) —Not including £55 million.

246. That is my question. Assuming Capita got all their money, it would be on top of the 273?

(*Mr Lauener*) No, 273.4 includes the amounts we have paid to Capita already.

(*Mr Normington*) 273 is the estimate. The current overspend is 74, we estimate the overspend will be more than that.

247. I thought I was trying to ask a very simple question.

(*Mr Normington*) Sorry.

248. I am trying to find out how much taxpayers' money has been spent on this programme altogether.

(*Mr Normington*) £273 million.

249. In total.

(*Mr Normington*) In total.

250. As at June 2002. How much of that £273 million is money that has gone to Capita as opposed to for training?

(*Mr Normington*) We have not completed our payments to Capita and our discussions with Capita. The overspend is about £74 million and we are estimating it will be about 93, 93.6, 94, something like that, and that makes an assumption about the payment to Capita.

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MR DAVID NORMINGTON CB, MR PETER LAUENER,  
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[Continued

**[Mr Bacon Cont]**

251. So what you are saying is when you cash up in total the expenditure on ILAs, including Capita, including money paid to providers, etc, will be about 296 million?

(*Mr Normington*) That is about right, yes.

252. The money for the 70 staff that you are employing trying to sort out this mess, is that on top?

(*Mr Normington*) Yes, I am having to pay that from my budget.

253. Just a rough calculation, taking the average wage as £20,000 a year, that would be £1.4 million a year for two years which would be £2.8 million on top of that, is that right?

(*Mr Normington*) Possibly.

254. Could you give us a note on all of the expenditure setting it out rather more clearly: what you have paid to Capita so far, the various scenarios you will be paying and so on? I am not confident that this is the final number. I would like to get the total final number. Could you also include in the note a more detailed summary of what is in paragraph 2.51 on the largest amounts that have been paid where it says "Twenty providers had claimed over £1.5 million through the scheme; two had claimed £6 million". I was told there was one provider who got £7.5 million. I do not know if that is right or not but I was told that it was. What would be the cost, if you could provide a note setting out who got what going down the scale, as it were.

(*Mr Normington*) Yes.<sup>16</sup>

**Mr Bacon:** And also if you could list and name those providers who were getting more than a million pounds a week at any point because these are the ones where you would have had to be getting under the £200 scheme 5,000 students per week, which is the equivalent of a small university each week, and when those payments were happening, that would be quite interesting to know —

**Chairman**

255. Are you happy with providing this information? It is coming at you thick and fast, I hope somebody behind is taking a note of it.

(*Mr Normington*) I am sure that somebody behind me will take it. The bit that I am not certain about is whether we can name the providers to you. I will do my best to provide you with the information you want.

Mr Jenkins: It is public.

(*Mr Normington*) Sorry, you can have it. I just need to indicate to you if those people are before the police, but you can have that information of course.

**Chairman:** It can come to us in confidence any way.<sup>17</sup>

**Mr Bacon**

256. If you could do that on a scale, the number of them getting a million pounds a week and the number getting £500,000 a week and so on, down to about £100,000 a week, that would be fine.

(*Mr Normington*) I will do my best.<sup>18</sup>

257. How much have you paid Capita so far?

(*Mr Lauener*) It is about £32 million.

258. I have already asked for a note on the situation with the police who I am told have told you that there is no case to answer. A detailed note on that would be helpful. I have also asked you about the animal rights extremists as well and I believe there is evidence of that, although again I will leave that with you. There was a newspaper article about al-Qaeda, I do not know if it was just speculation. Do you have any evidence that money went to al-Qaeda?

(*Mr Normington*) No, we have no evidence whatsoever.

**Chairman:** That would have been a show stopper at the end of the meeting.

259. You are aware of the article in the *Daily Telegraph*?

(*Mr Normington*) Yes, I am. Of course we have looked at it and there is no evidence whatsoever of that.

260. You are quite confident that no money went to international terrorism. It was so easy to get it could have gone anywhere, could it not?

(*Mr Normington*) I am as confident as I can be, but in the end I do not know for sure.

**Chairman:** None came to me anyway.

261. The Audit Commission published a report *Ghost in the Machine* in February 1998. Are you familiar with that?

(*Mr Normington*) Yes, in general terms.

**Mr Bacon:** It was quoted in the Education Select Committee. "Senior management still appears to lack a commitment to improving IT security and cracking down on abuse", that was February 1998 and it would still appear to be true. I concur with what everyone else said about the need for us to take even more seriously warnings to the public sector about IT fraud. It appears that the warnings which have been received have not been taken notice of.

**Mr Rendel**

262. I have one specific question, if I may, which I do not think anyone has asked yet unless I was asleep at the time, referring to paragraph 3.14(a) where there is a very intriguing reference to a provider who may have been involved in the circulation of instructions on how to circumvent the system. It sounds rather odd for a number of reasons. First of all, it is incredible that anyone should have actually been sending these out and, secondly, it seems rather odd that they should have sent them presumably to their competitors. It sounds as if they were trying to give their competitors an advantage on how to defraud the system. Do we know who was doing it?

(*Mr Lauener*) It was this chain of events that led to the decision on 23 November to close the scheme immediately. On 21 November, which was a Wednesday, we got evidence from a provider that account numbers were being circulated by a third party. We sent someone to interview the provider the next day on the Thursday, we got the evidence in the

<sup>16</sup> Ev 29–30. Confidential note provided, not printed.

<sup>17</sup> *Note by witness:* No provider received more than £1 million in any one week. Confidential note provided, not printed.

<sup>18</sup> Confidential note provided, not printed.

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[Continued

**[Mr Rendel Cont]**

form of a disk which had live account numbers, we interrogated the database to establish that these account numbers were indeed live and in the course of the day we had discussions with Mr Normington, with ministers, discussions with the police and we decided that the evidence was so strong that we should close the scheme that day and I phoned Mr Aldridge at half past four and made arrangements for that to happen.

(*Mr Aldridge*) I think I would like to add to that if I could. It is an important point which has come out quite late here. I will ask my colleague to talk about the IT security side. There is no evidence that the system was being hacked into by any people outside of the closed community of learning providers and those who had signed up for Individual Learning Accounts, there is no evidence. There is no evidence, also, that anything occurred within the ILA centre and that is accepted within the NAO Report.

**Mr Field:** You did not have to hack in. It was so easy to get the money anyway, you did not need to be sophisticated.

(*Mr Normington*) What was happening was once you were in, in the last days people were loading up disks with names.

**Mr Rendel**

263. Anybody could be a provider anyway.

(*Mr Aldridge*) Mr Rendel, can I say, let us be quite clear, this was not easy to get into. It required, once you were in, to have collusion probably by three or four training providers to make it happen. There is evidence that in one of the providers it took 23 hours and it was apparent from the management information that was produced by the system this was the case. One of those providers actually was on the system for 1,332 times. He registered 8,568 courses which was an average of something like 1,223 courses a day, and his previous average was 54. It was very apparent this was not something where you could simply go in and do things in the way that has been suggested. I think that is very important.

**Chairman**

264. Did you want to say something, Mr Tizard?

(*Mr Aldridge*) Could I ask Mr Tizard to add to the point about IT security.

(*Mr Tizard*) If I try to anticipate what I think Mr Field was going to say. There is no evidence that any Capita employee has misused or inappropriately used data from the scheme. The events of the weekend of the 18/19 November are it would appear that Provider A ran an automated script to detect value of account holder numbers from within the system. He passed those then to Provider B, so there was collusion here between two providers at least, who tried to book courses for those account numbers to check whether or not there was still credit available on those accounts. Having established that there was, he cancelled then those particular bookings for those courses and passed that information to a third, and maybe more providers who then misused and abused the scheme. I think it is important to recognise that the IT system had integrity and was not breached by third parties but

because of the business processes which had been implemented to develop and translate the policy into practice—and we have heard today some of the drivers for that, the low bureaucracy, easy access—it meant that there was a lack of integrity within the whole scheme rather than the IT system itself. I think it is important to recognise that. Indeed, we identified those problems continually throughout the whole period of executing and delivering the service and much of what we have heard today, matters on which we were in discussion, admittedly now at an inappropriate level with colleagues from the Department.

**Mr Rendel**

265. I want to come back to the original question. We have talked a lot about the numbers which were available. What the statement in 3.14 says is that one of the providers—may have been involved in the circulation of instructions as to how to circumvent the system. That sounds like a different case from the one you have just been talking about in the answer. What I would like to know is were there instructions going out as to how to commit fraud and, if so, do we know now, because this indicates we did not know at the time this report was drawn up, who was circulating the instructions and, if so, what has been done about it?

(*Mr Lauener*) It was all part of the same process. Once a provider was in the system the algorithm for creating Individual Learning Account numbers was being circulated and this was the particular thing that added credence to the story about the disk that we had in our hands and led us to conclude that although no-one was hacking into the system, the integrity of the system was obviously in some doubt and under attack from the providers that were authorised to use it. There was evidence of certainly one provider circumventing the system and one of the providers had links with several other of the

266. So you did know who that provider was who was circulating the instructions?

(*Mr Lauener*) We know the names of the very small number of providers that were involved in using account numbers in this way.

267. Have they been prosecuted?

(*Mr Lauener*) Our concern is being discussed with the police.

**Chairman:** I think you have got one more question from Mr Williams and then you are free to go.

**Mr Williams**

268. It is not one question, just one issue. Mr Aldridge, you said in reply to Mr Davidson that you should have said more to the Permanent Secretary. The Permanent Secretary has not featured much today, only when I alluded to him a little earlier. In the report, in all fairness, you gave considerable warnings to the Department about the problems that you envisaged, so regardless of the fact that you said you could have said more to the Permanent Secretary, you did tell the Department. Was the Permanent Secretary aware of the concerns that you expressed and that you referred to in the report?

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[Continued

[Mr Williams Cont]

*(Mr Aldridge)* I do not think I can answer that.

269. The old Permanent Secretary?

*(Mr Normington)* I am not sure that the Permanent Secretary was aware, no. I do not believe he was. I have not had that particular conversation with him but from looking back at the history of this I do not think that he was aware of that himself.

270. As fraud was one of the hazards that has been referred to you would have expected possibly that somebody in your Department would have said "By the way, although we do not think there is much danger of fraud" one should have alerted him as accounting officer, because after all he was the accounting officer, to the fact that it may be vulnerable to fraud.

*(Mr Normington)* There are two issues here. In a properly run project you should have systems for elevating problems to senior people and that did not happen. I have forgotten what the second point was but that is the main point I was going to make.*(Mr Lauener)* Our assessment of the risk of fraud was not escalated up the senior management line but we started off with an assessment that there was low probability and by October 2000 we had assessed that it was medium and it was not exactly a stroke of genius but by the summer of 2001 we thought it was a high risk. It was not that we just sat back and made no reassessment.*(Mr Normington)* The other check that the Permanent Secretary would have as accounting officer was if his own internal audit alerted him to problems and they did not.

271. That is interesting. Should they have? Would you have expected it?

*(Mr Normington)* They did not.

272. That is not what I asked you. You said they did not and I am asking would you have expected them to?

*(Mr Normington)* Yes.

273. You would?

*(Mr Normington)* Yes. If they had spotted serious problems in the project I would have expected them to have reported directly to the accounting officer. I am clear that they did not do that.

274. Sir John, it is a matter of deep concern to the NAO. You are dependent in part on the work of the internal audit in all departments, you have to monitor the whole of Government, and it would be infinitely more difficult if the situation described was fairly commonplace. What on earth went wrong that the internal audit missed the dangers?

*(Sir John Bourn)* In the absence of being able to ask them it is difficult to go beyond the explanations given by the Permanent Secretary as to why the Department as a whole were not cognisant of the real risks that they were running in this matter. Having said that, of course, you do expect the internal audit to be able to stand slightly to one side of the Department even though they are part of the executive management. The point you make about my concern about it is well taken and I shall look into it.

275. It is fairly difficult for an accounting officer. He has a vast department himself that he has to try to control with all manner of individual accounting

points within it and he needs the early warning of the internal audit. What is your assessment of where it went wrong then as his successor? Why did they miss it?

*(Mr Normington)* I have had that conversation with them.

276. You have?

*(Mr Normington)* I have. All I can say is that everybody involved in this, and in a sense this goes right back to the beginning, everybody believed that this was an innovative scheme and they were going to take some risks and those risks were justified because of the objective of getting many more people into learning. The decision was taken therefore to have not a rule free scheme but nevertheless a scheme which had light touch rules and the internal audit function observed that decision and did not believe it was the wrong decision. With retrospect, as I have said, those were the wrong decisions but nobody in the system within believed that it was a wrong course.

277. I am not asking names. We have been told an individual is no longer in the department. Is that from the internal audit section?

*(Mr Normington)* No.

278. What about the internal audit section? They did not do the job that they were paid to do, what has happened to them?

*(Mr Normington)* I think we have to hold responsible those who ran the scheme. The internal audit are there to provide independent assurance. They did not do it in this case in a way that would have said there was a problem. Generally I have a lot of confidence in my internal audit. I get quarterly reports. We discuss it. They flag things up to me normally. This one they seem to have missed.

279. Does that make you nervous?

*(Mr Normington)* Yes.**Mr Williams:** I think you and Sir John had better have a good conversation at leisure next week. Thank you very much.**Chairman:** Thank you, gentlemen, for coming before us this afternoon. My colleague, Gerry Steinberg, said by virtue of saying sorry repeatedly you have got away with murder. I do not think you have got away with murder, I think it has been a very useful session. I think you have been open with us about the shortcomings in the Department and you have given us assurances that lessons have been learnt. One of the lessons, of course, is that the Accounting Officer is ultimately responsible and has to be kept fully informed of what is going on and there must be a genuine partnership with a contractor. Obviously in this case it would have helped if Capita had been on the board. Mr Aldridge has told us that he is the quiet man of business but I cannot believe he has built up a business by being a quiet man but, still, leave that to one side. I am sure you have learnt some lessons from this as well. I hope that we will not see a situation again where civil servants feel that they are faced with a situation in which clearly pilot schemes are going wrong but they feel they have to deliver something, even on an inadequate scheme, and ignore advice to meet a timetable. Thank you very much for coming to see us this afternoon.

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[Continued

## APPENDIX 1

**Supplementary memorandum submitted by Mr David Normington CB, Permanent Secretary, Department for Education and Skills**

*Questions 80–83: Do you think that KPMG eliminated risk from that public sector comparator then? What you seem to be now saying is that Capita had no price in there for risk because the risk was not spread to them, really?*

Many of the risks of operating the ILA scheme did, in effect, remain with the Department; but not all. KPMG evaluated the Capita bid over the period January to March 2000. The analysis was consolidated into a bid evaluation report (covering financial, commercial and technical viability and sensitivity analysis) for the Department in July 2000. The Public Sector Comparator (PSC) model was used to test the price and cost information provided by Capita. The evaluation included the level of risk that Capita were assuming.

A high risk element for both the public and private sector was that this was a new service, with some uncertainty about volumes, with Capita having little control over the demand risk because the onus for stimulating demand rested with the Department. Other risks carried by Capita are as set out below:

- Delivery of the technical solution to very tight timescales.
- Potential delay of full service commencement due to failure to fulfil transition plan (as a result of contractor default).
- Developing the business processes and systems to handle those.
- Service provision (eg web usage, call length and call volumes).
- Capacity to support demand levels and performance standards based on capacity limits.
- Inflation.

With hindsight, however, there was insufficient clarity in areas where risks were shared between Capita and the Department.

*Questions 150–151: Can I ask in terms of prosecutions that have taken place...can you clarify what the penalty was in those cases and what the scale of the offence was?*

The Department's SIU is currently dealing with 153 registered learning providers about whom we have more serious complaints or concerns. Of these 153, the police are investigating 100 learning providers. To date there have been 60 arrests, which have resulted in 10 people accepting cautions and charges being brought against 14 individuals. Charges have since been dropped against two individuals investigated by the National Crime Squad (NCS); this was due to the small amounts of money involved for these individuals. 11 others are awaiting court appearances. One person has been convicted.

*Questions 191–193: Mr Normington, could you say how much money from this scheme went to animal rights extremists? Is it correct when the managing director of Huntingdon Life Sciences was attacked by animal rights extremists a large wadge of Individual Learning Account application forms were found in the back of his car?*

The ILA learning providers that police investigations have linked to Animal Rights activity are being investigated by the NCS. Charges have been made against three providers. Details have been provided separately to the Committee.

The NCS expects 10 people to appear in court in February on charges of deception and conspiracy.

One of the four people arrested in connection with the assault on the Managing Director of Huntingdon Life Sciences was discovered to have four ILA application forms in his car. The individual was not subsequently charged for the assault, but the discovery of the ILA application forms led to the NCS's investigation into ILA fraud. The NCS has no evidence to suggest that funds obtained from the ILA programme have been used to support animal rights activities.

*Questions 213–214: West Mercia Police have told me that they are sitting on a lot of files that they do not know what to do with because there is no case to answer. Could you let us know in a note what advice you have had from West Mercia Police about this?*

The Department and West Mercia police refute allegations that they are "sitting on a lot of cases that they do not know what to do with because there is no case to answer". West Mercia Police have confirmed that they have received a complaint in relation to only one ILA fraud and that they are involved in liaison with the Department and Capita on this. The police have stated categorically that they are not "sitting on files that they do not know what to do with". A number of other learning providers have been linked to the allegation

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made to West Mercia and the Department's SIU is in the process of collecting evidence on their behalf by way of a mailshot to account holders. The Department is currently in the process of arranging a meeting to hand over the results of this work.

*Questions 227: Could we have a note on the successes [of working with Capita]?*

At the time of the original ILA contracting process, Capita demonstrated that they had previously implemented—with success—sensitive, high profile political initiatives using controlled project management techniques. For example, they had successfully developed and implemented the national nursery voucher scheme for the Department for Education and Employment (DfEE), and also introduced the national driving theory test for the Driving Standards Agency involving 1.5 million candidates per annum. DfEE had also contracted with Capita in 1996 to administer the Teachers' Pensions Scheme, and that contract was being performed in line with contractual requirements. Over the contract's seven year life it is expected to deliver savings of £20 million.

*Questions 245–254: Could you give us a note on all of the expenditure setting it out rather more clearly: what you have paid to Capita so far, the various scenarios you will be paying and so on?*

The ILA budget for England (£199 million over the two years 2000–01 and 2001–02 which includes DfES budget allocations and £112.6 million recycled TEC resources) was based on achieving 1 million Individual Learning Accounts by April 2002. Spend to date (as at 31 December 2002) has been £276.9 million following the high level of take up of ILAs. Note, the budget figure is slightly lower than mentioned previously; mainly reflecting a lower estimate for TEC recycled resources.

Following our decision to take forward the further development of ILAs as part of the wider review of the funding of adult learning and the development of the wider National Skills Strategy, we agreed with Capita that their work with us on the successor scheme was complete. We agreed with Capita that it was sensible to terminate our contract with them for the ILA 1 programme. The negotiations on the contract termination are now completed. The agreement on the settlement of the contract involved a final payment by the Department to Capita of £1.5 million. This payment is some £1 million less than Capita's contractual entitlement. The settlement payment brings the total spend on the Capita contract, included in the figures above, to some £32.5 million (ex VAT), compared with a total contract value for the full 5 year term of some £55 million.

Details of programme expenditure are set out below:

#### ILA EXPENDITURE ON NATIONAL DELIVERY

£ million	Income		Expenditure		Total (3)	Forecast for final outturn and overspend
	DfES Budgets & TEC contributions for ILAs (1)	Incentives for training	Delivery costs (2)—Capita contract	Policy development/ programme support (consultancy/ evaluation)		
2000–01	70.0	51.8	15.6	2.6	70.0	70.0
2001–02	129.0	183.1	20.5	1.1	204.7	222.6
2002–03	NIL	0.2	1.5	0.5	2.2	
Total	199.0	235.1	37.6	4.2	276.9	292.6
Budget	199.0				199.0	199.0
Overspend					77.9	93.6

Notes:

(1) Includes the TECs' contributions to the budget for ILAs delivered by the national framework, ie after deducting cost of locally delivered ILAs.

(2) In 2000–01 some ILAs were delivered by a unit set up by TECs in the South-East. Figure includes £264,000 in management fees in 2000–01. (2000–01 and 2001–02—VAT inclusive).

(3) Payments at 31 December 2002.

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[Continued

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In addition, from Departmental running costs some £1.3 million has been spent on staff costs for those involved in the winding-up of the original scheme.

*David Normington CB*  
Permanent Secretary  
Department for Education and Skills

*December 2002*

## APPENDIX 2

### Supplementary memorandum submitted by the National Audit Office

#### THE INVOLVEMENT OF PROJECT PROVIDERS ON PPP PROJECT BOARDS

The NAO made enquiries with Partnerships UK, the Office of Government Commerce, and Capita. Our findings support Mr Normington's assertion that it was not standard practice for project providers to be on project boards at the time the ILA partnership was established in 2000, and we found no examples of their occurrence at that time. Guidance at the time did not emphasise the importance of this issue. More recently the use of joint boards or teams has been promoted widely, and is becoming more common. The changing emphasis of guidance is set out below.

In the Cabinet Office's 1994 report on the Government's use of external consultants it states that "throughout the project will be close collaboration between the organisations staff and the consultants. On some projects this may simply mean the project manager keeping alongside the consultants . . . on others a joint team will be set up". The original Treasury Task Force guidance on partnerships (Partnerships for Prosperity), issued in 1997, concentrates on the procurement stage of the process and pays little attention to the contract management/partnership stage, with no mention of project boards. Subsequent guidance on how to manage and deliver long term PFI contracts, issued in January 2000, states that "it may be advisable to establish a formal liaison committee with membership comprising representatives of the Authority, the contract manager, the public sector end user or service client if separate, and the Contractor."

The Institute for Public Policy Research's 2001 publication on building better partnerships gives one case example of its use (Capita/Norfolk County Council) and seems to welcome greater consideration of such boards, along with other forms of "post-contractual governance arrangements". Current Office of Government Commerce (OGC) best practice guidance, published in July 2001, on managing partnership arrangements states that "to monitor progress and reduce the potential for conflict, top management must ensure that a joint review and improvement team is established."

## APPENDIX 3

### Supplementary memorandum submitted by Capita Group Plc

#### INTRODUCTION

1. Capita welcomes the opportunity to submit this memorandum of supplementary evidence. This complements the oral evidence given by Capita's Executive Chairman and Director of Policy and Public Affairs at the Committee's meeting on 4 November 2002.

2. Capita regrets that such an innovative and creative scheme has had to be stopped with the resultant losses for learning providers, lost training opportunities for learners and such high levels of fraud and inappropriate use of public money.

3. Capita wishes to contribute to all inquiries into the scheme and identification of the lessons arising from it, as well as with the current criminal and other investigations which are being undertaken.

4. Capita believes the shortcomings of the ILA scheme hold lessons for all future public private partnership schemes.

#### CAPITA'S ROLE AND RESPONSIBILITIES

5. Capita administered specific elements of the ILA scheme, in accordance with the specification and business rules set by the DfES.

6. Capita's role in the administration of the system and elements of the scheme in England was to:

- process account holder applications and issue membership forms via a call centre
- process learning provider registration applications at an administration centre
- produce a "claim for incentive payments" file for each learning provider for approval by the DfES



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[Continued

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- issue forms for membership cards and account holder “welcome packs” via a subcontractor called Standard Group which operated under Capita’s direction
- develop, implement and operate the computer system in accordance with the DfES requirements to support these processes via Capita Group’s Data Centre
- allow access to the computer systems by approved learning providers approved in accordance with the Department’s Business Rules Handbook so that they could register account holder applications for learning and confirm commencement and hence a claim for the appropriate level of incentive payment
- produce management information and audit reports to the DfES to agreed formats and agreed schedules
- undertake the responsibilities of Data Processor as defined in the Data Protection Act.

7. Capita was not responsible:

(i) for the decisions not to:

verify or accredit learning providers

verify that account holders have received learning for which provider payments have been claimed and/or made

evaluate the quality of the learning,

(ii) under the contract for:

making the payments to the learning providers—this was undertaken by the DfES;

pursuing fraud enquiries directly—though Capita passed on any suspicion evidence of abuse or fraud to the DfES.

8. The DfES retained responsibility for:

- determining policy and the composition of the project board (the Department chose not to include Capita in the project board, thereby seriously diminishing the opportunity for their private partner to influence the decisions made);
- setting the business rules and processes including quality assurance of the learning and learning providers;
- ensuring the verification or accreditation of learning providers (although the Department chose to drop this activity in order to attract larger numbers of new learning providers and so grow the market);
- making and authorising payments to learning providers;
- monitoring the performance and effectiveness of the scheme (Capita provided management information to the DfES to support this);
- client monitoring and management of the contract with Capita; and
- undertaking the responsibilities of Data Controller as defined in the Data Protection Act.

9. Although this was meant to be public private partnership the DfES chose, as the National Audit Office report found, to treat Capita as a contractor and excluded Capita from the project board. This meant that the DfES was unable to benefit from Capita’s operational expertise and experience as would be standard in good partnership arrangements. Capita sought membership of the project board on several occasions, but was denied this. (C&AG’s Report para 2.23.)

10. An official who was not a member of the project board, and who reported to a member of the board, managed the contract relationship between Capita and the Department. Escalation of concerns was difficult because of these arrangements.

11. In Capita’s view, this lack of partnership was a fundamental cause of the problems that arose. It prevented risk transfer to Capita and prevented Capita from having the opportunity to escalate swiftly concerns, which it identified as the scheme was implemented and after it became operational.

12. Capita accepts that it should have circumvented the contract management arrangements and relationships put in place by the Department, and that it should have made attempts to raise its increasing concerns about the integrity and progress of the ILA scheme with senior DfES officials and Ministers.

13. Capita is so concerned about the impact of a lack of effective partnership between client and provider that it would have to seriously consider whether it would be appropriate to bid for any future central Government contract unless the partnership arrangements are changed, demonstrating commitment and capacity within the procuring department.

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4 November 2002]

[Continued

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## MAJOR ISSUES

### *Policy and Business Processes*

14. It should be noted that although the original target was to have been 1 million learning account holders by March 2001, by the time the scheme was suspended in November 2001 there were in excess of 2.5 million account holders—the vast majority of which were legitimate. The scheme also led to the development of the learning provider supply market and to market diversity. This was an indication of the value of the scheme and the importance that people were attaching to learning and training.

15. Capita was selected as the service provider for elements of the ILA scheme as a result of a competitive procurement process. Although the set up period was challengingly short, Capita was able to ensure that the scheme was operational in accordance with the Department's timetable. Capita had existing infrastructure and expertise in successfully setting up major schemes such as this one to tight timetables. For example, Capita established the Theory Driving test within six months.

16. Immediately prior to and in the early weeks of the operation of the scheme, the DfES made some changes to the original business rules for which the ICT system had been designed to support. These included the dropping of requirements for validation of learning providers, and authenticating the addresses of account applicants. These changes weakened the integrity of the overall ILA scheme.

17. The lack of verification of account holders' addresses make it easier for illegitimate multiple applications. Capita brought these to DfES attention seven days after the start of the scheme in September 2001, but was told by the Department that it was a low priority.

18. The Department, in response to requests from learning providers, introduced "blank" application forms. Originally learners had been expected to apply for membership by contacting the ILA centre and then receiving a partly completed form. Capita was concerned that the use of these "blank" forms could lead to abuse of the ILA scheme. Capita raised these concerns throughout the contract, and especially in April and June 2001 when the level of activity increased significantly.

19. Capita kept logs of all activity on the system, but did not have the controls to prevent or detect unusual behaviour as it occurred, as the NAO Report rightly finds. It goes on to state that Capita had requested the Department to consider such a control as a matter of priority, but that the DfES decided against pursuing it at that time (C&AG's Report para 2.49)

20. Capita regularly provided the Department with a range of management information on service provision, as required and specified by the DfES. According to the NAO Report, the Department did not have the capacity to study and act upon this information. (NAO Report card 3)

## THE IT SYSTEM AND SCHEME SECURITY

21. The failings in the integrity of the ILA scheme resulted from the policy and business rules on which the overall ILA scheme was based, and not from any inherent insecurity in the IT system.

22. The computer and associated IT systems that Capita implemented were discussed and agreed with the Department and its advisors. They were designed to enable access for a closed community of learning providers for legitimate purposes, using an individual User ID and a password, in accordance with the Department's policy.

23. The IT system met contemporary industry standards—ISO/IEC 17799:2000.

24. Capita expected existing databases would be used to accredit learning providers and the learning courses they offered. The DfES chose not to do this. The Department subsequently proposed that learning providers would be a closed community of learning providers. Without prior accreditation, all learning providers were therefore placed in a position of trust in relation to the quality and appropriateness of learning they offered, and the way in which they could claim incentive payments for providing learning. Capita raised this with the DfES as a concern.

25. The ILA Account Holder number was designed as a membership number, based on a sequential number plus a check digit, in accordance with the ILA policy and business rules and not as a security measure.

26. The issuing of account statements to account holders would have provided an additional security check for the scheme. Originally these were meant to be issued annually, but the Department delayed their use in July 2001. Capita also suggested that statements be issued on a more regular basis as a means of ensuring that account holders would be able to confirm that they had received training for which payments were being made. An additional security check was that payment would be authorised by and transferred from the DfES following its approval of the claims for each learning provider.

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4 November 2002]

[Continued

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27. On 24 October 2001, the Secretary of State for Education and Skills, Estelle Morris MP, announced the suspension of the ILA scheme in England due to the requirement to assess value for money and concerns about the promotion and sales practices of some learning providers, and not due to concerns about the IT system.

28. On 23 November, the DfES informed Capita that there was an allegation that account holders' information was being put up for sale, and that a Capita employee might be implicated. Capita immediately complied with the DfES' instruction to close the system in order to protect the public interest and to allow for the necessary investigations, which initially focussed on this incident.

29. There is no evidence that any Capita employee was involved in any inappropriate access to the system or in supplying any account holder information improperly or illegally to a third party. (NAO para 3.8)

30. There is no evidence of any security breach of, or "hacking" into, the system by a third party who did not have legitimate access to the system.

31. The actions to extract large numbers of names took place during November 2001 just prior to the scheme closedown. Providers had already been notified that the scheme would be shut down, resulting in a high access rate to the system to record and confirm mainly legitimate activity.

32. It would appear that in one weekend in November 2001, account holder details were obtained by an elaborate and inappropriate use of the system by at least three accredited learning providers, acting in collusion.

33. Learning providers had access to account holders' names and addresses for the legitimate purpose of verifying that they had credit in their ILA and that they were registered learners in accordance with the business rules.

#### CONCLUSION

34. Capita recognised the value and importance of the programme and was pleased to have the opportunity to support the Government's policy of Individual Learning Accounts through the development, implementation and operation of the IT system and the administration of the defined business processes.

35. Capita's investigations have produced no evidence of any improper or illegal activity by any Capita employee, or any unauthorised access to the scheme. Capita continues to co-operate with all the investigations and inquiries on the ILA scheme. Capita made a range of evidence and information available to the NAO.

36. Capita would be pleased to supply any further information that the Committee may require.

37. Capita believes there are clear lessons from what has occurred:

- (i) Any public private partnership must be a true partnership: private partners must be members of the project board, which should comprise senior personnel from the procurer and the provider partners. They must also have access above board level to ensure the scheme benefits from their advice and expertise, and that any arising issues can be swiftly escalated, if necessary to senior officials and ministers, and so resolved.
- (ii) Whenever policy or business rules are changed, there should be consultation with the service delivery partner, and the full implications of these changes on the security of the project and the IT system should be identified and taken into account.

#### APPENDIX 4

##### **Correspondence from Mr Ivan Lewis MP, Parliamentary Under-Secretary of State for Adult Learning and Skills, to the Chairman of the Committee**

###### CAPITA CONTRACT TERMINATION SETTLEMENT

###### *The Department's Accounts*

I wrote to you on 24 October 2002 to advise you of our decision that the further development of the ILA Successor Scheme must form a coherent part of the future funding of adult learning, and that we had reached an agreement with Capita that their current work on the development of a successor scheme was complete.

We agreed with Capita that it was sensible to terminate our current contract with them for the ILA programme. The basis of the decision to terminate the contract was the change in Government policy about the approach to the further development of the ILA successor scheme. At the PAC hearing on 4 November, David Normington explained that discussions were on-going about the termination of the contract. Those negotiations are now completed.

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*4 November 2002]**[Continued*

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The contractual position on termination takes into account:

- termination charges due to Capita under the contract,
- the return of part of the profits generated by Capita to the Department under the contract Benefit Sharing arrangements; and
- that the Department has made no payments to Capita since April 2002 and very little had been paid since closure of the original programme.

We and Capita have acknowledged that we have both made mistakes in the way the original programme was operated. The agreement on the settlement of the ILA contract involves a final payment by the Department to Capita of £1.5 million. The settlement will bring the total spend on the contract to around £32.5 million (ex VAT), compared with a total contract value for the full 5 year term of some £55 million. The final settlement payment is some £1 million less than Capita's contractual entitlement—this figure was mutually agreed through negotiation to reflect a settlement acceptable to both parties based on Capita's delivery of the ILA system and the shared desire to conclude the wind down of the original scheme.

Capita worked closely with the Department on the wind down of the ILA programme and also in the initial work on developing arrangements for a successor scheme. Their work has helped to provide us with a framework on which we can now move forward.

As part of the settlement, Capita will continue to provide support on the ILA wind down work until April 2003. Capita have also agreed that the Department will be able to draw fully on the investment in the design and development work undertaken by Capita over the term of the contract to date—both the system for the original ILA Programme and the work undertaken by Capita with us on the initial development of a successor scheme.

I am taking this opportunity to inform the Committee that the Department's Annual Accounts will soon be published. These will record that there were estimated net irregular payments of £97 million on the ILA programme of which, based on estimates and extrapolations, some £67 million was fraud and serious irregularities. The other £30 million was where learning was provided but where the claims did not fully meet the programmes rules.

*Ivan Lewis*

Parliamentary Under-Secretary of State for Adult Learning and Skills

*20 January 2003*

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SESSION 2002–03

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	Government Reply (Cm 5770) . . . . .	06/03/03
2	Dealing with pollution from ships (HC 119) . . . . .	09/01/03
	Government Reply (Cm 5770) . . . . .	06/03/03
3	Tobacco Smuggling (HC 143) . . . . .	10/01/03
	Government Reply (Cm 5770) . . . . .	06/03/03
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