



Business, Innovation and Skills Committee

Oral evidence: BIS Annual Report and Accounts 2012-13, HC 1003

Wednesday 22 January 2014

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Members present Mr Adrian Bailey (Chair); Mr William Bain; Mr Brian Binley; Paul Blomfield; Katy Clark; Mike Crockart; Caroline Dinenage; Rebecca Harris; Ann McKechin; Mr Robin Walker; Nadhim Zahawi

Questions 1-95

Witnesses: **Rt Hon Vince Cable MP**, Secretary of State for Business, Innovation and Skills, **Martin Donnelly**, Permanent Secretary, Department for Business, Innovation and Skills, and **Howard Orme**, Director General, Finance and Commercial, Department for Business, Innovation and Skills gave evidence.

Q1 Chair: Good morning, Minister, and thank you for being available to speak to us today on the departmental Annual Report. We are short of time, so I will just quickly ask everyone to introduce themselves for voice transcription purposes and then we will get on.

Martin Donnelly: I am Martin Donnelly, Permanent Secretary of the Department.

Vince Cable: Vince Cable, Secretary of State.

Howard Orme: Howard Orme, Director General, Finance and Commercial.

Q2 Chair: I want to start with a few questions on the ONS quarter 3 GDP statistics and, first of all, the construction sector. Despite all the public good news on the economy, the current construction sector output is significantly below its 2011 level, even though the broader economy is growing. Given the strategic significance of construction, do you think that economic growth and the construction sector's role within it could be undermined by the construction sector's lack of progress?

Vince Cable: It is certainly relatively weak, you are quite right. The construction industry took a terrible pounding in recent years. There was a combination of factors: the collapse of the housing market in the crisis and then commercial property and, particularly following the 2009 Budget, very big cutbacks in capital spending, so the construction industry was very depressed. There is some indication at the moment that there is recovery, but as you quite rightly point out, it is lagging behind the rest of the economy

and in order to make its appropriate contribution we have to see, particularly, a significant upturn in house building—that is one of the key drivers—together with progress on the big infrastructure projects. The surveys, as opposed to the backward-looking indicators, do suggest that there is a much more positive spirit in that industry, but it has been through a torrid time and it still has not shown the level of recovery we would want.

Q3 Chair: You have talked about housing; how reliant do you think the construction sector is on the Government's home ownership and housing schemes, some of which you have exercised some concern about?

Vince Cable: It is an important component. The only thing I have said that is at all controversial is that you need to manage demand as well as boosting supply, but I think we can all agree on that; it is just a question of how best you do it. Indeed, the Bank of England and the Treasury have recognised that by changing the emphasis of the Funding for Lending Scheme so that it is now targeted at small business rather than at the mortgage market. There is recognition that demand had to be managed and it is being managed.

I would just add one other thing on the construction industry. We do recognise in BIS that quite apart from the big macroeconomic factors affecting construction, there are some specific issues in relation to that industry that have been overlooked for very many years. Construction is one of our 11 sectors, because it is core to the economy. When we have got the industry round the table, as we have, we realise there are very, very deep issues regarding lack of skills, which come from a boom-bust cycle approach in parts of the industry, the lack of co-ordination. Innovation in the British construction industry is very weak compared with some other countries; Scandinavia has much more advanced building techniques. We are trying to work with the industry on a long-term partnership basis, along with the rest of the industrial strategy to deal with those issues.

Q4 Chair: You have partly pre-empted my next question. If I may, I shall package a number of issues in just one question. First of all, are you concerned that the industry seems over-reliant on housing schemes and, basically, what are you doing to broaden the role that construction has and deal with the problems that are within it?

Vince Cable: Housing is a necessary part of the sector and indeed we want to see lots more houses being built, so if you mean over-reliance, it is not at the expense of housing supply. We want to see a lot more houses built.

Q5 Chair: I am talking about what steps you are taking to improve construction in the non-housing sector. Nobody is saying that there should be any diminution.

Vince Cable: No, indeed. The group we have now assembled around the construction industry is designed to address those bigger systemic, strategic issues. As you know, Sir David Higgins's track record is outstanding and he is chairing that group.

Part of what we are trying to do is to make sure that there is a long-term process in train for training. One of the things that really worries us is that, as the construction industry picks up from very low levels, it will immediately run into bottlenecks of skilled workers,

many of whom disappeared from the labour market in the downturn. We are trying to work with the industry to make sure that we have proper apprenticeship programmes, that they are identifying skill bottlenecks ahead and trying to identify other bottlenecks. It is extraordinary that on some building sites I go to you find that they are having to import bricks, because the kilns were closed down in the slump and they are now having to restore that capacity. Therefore, to the extent to which we can in BIS with the limited instruments that we have, we want to try to help them deal with skill issues and other bottleneck problems.

Martin Donnelly: You may have seen the construction industrial strategy *Construction 2025*, which set out four high-level ambitions for the next 11 years: to be cheaper, faster, have 50% lower emissions and improve our overall trade performance. A delivery plan around that will be presented to the Industry Council next month, so that we are taking forward delivery of the strategy.

Q6 Chair: We will monitor that carefully. You mentioned, Minister, the Funding for Lending Scheme, and quite rightly you said that demand was largely through housing and needed to be refocused on lending to small businesses. Have you any evidence that the take-up from small businesses has improved since then?

Vince Cable: Not enormously. As I understand it, the November figures are a bit better, but small business lending, as we have discussed many times in Committee, is very depressed. It reflects the way in which the regulatory system bears upon the banks, the risk weights attached to SME lending, their general switch to more conservative policies. If we look over the last few months, the net lending decline, which was apparent over a long period of time, does appear to be bottoming out. There is some evidence that it may be increasing and there are a lot of positive things happening that may not be fully captured in the statistics. I am not sure, for example, that the peer-to-peer lending would be captured in the normal bank statistics. Some of the other things we are financing and supporting, like invoice lending, asset-based funding, may not be captured in the numbers. The sense we have is that the position is improving, but it is profoundly unsatisfactory.

Q7 Mr Binley: I was interested in Mr Donnelly's remarks about the work he was doing with the construction industry. The construction industry was always going to be absolutely central to any move out of recession and into the uplands of growth, not least because it impacts upon those emotional strings, like well-being and the feeling that things are getting better, that lie at the very basis of confidence. When did you start doing your work with the construction industry and could you give us a slight update on the availability of bricks, which is pretty central to this whole issue?

Martin Donnelly: As you say, construction is a key industry across the economy and we identified it as one of the 11 sectors where Government partnership had the most to offer, so we have been working on the industrial strategy for over a year. We published it last summer. We are taking it forward with a delivery manager being paid for by the industry and we are seeing a return of confidence. The latest ONS figures in January did show construction output had increased 2.6% between the third and second quarters last year and 6% year-on-year, so it is moving forward. There is more to do in specific areas, like

bricks and like skills and, as the Secretary of State has said, these are issues being picked up in the delivery plan, which the sector itself is taking forward with support from the Department and across Government.

Q8 Mr Binley: Is your Department not a bit late on this? Should it not have been doing this contingency thinking three and four years ago?

Martin Donnelly: Well, we have aimed to pull together a medium-term strategy. I think what we are doing now is the right thing to do. You can always challenge us to have done it earlier—

Mr Binley: I just have done.

Martin Donnelly: —or better, but we are very much on the case now.

Vince Cable: I have been regularly meeting the construction industry, the house builders, the construction products industry ever since we came into government. The big step forward, which the Permanent Secretary has just described, is that we now have all these people around the table together. They hitherto saw themselves in very fragmented terms and we are now trying to approach it in a more strategic way.

Chair: I do not want to labour this point, but part of the problem is that the Department seems very good at producing strategies but we are coming to a point where, reasonably, we expect to see some delivery and we are coming to the end of this particular Parliament. But we will monitor the progress of this.

Q9 Nadhim Zahawi: Welcome, Secretary of State. Before I ask about the utilities, may I, obviously, commend you on making shareholder votes on executive remuneration binding? That is an important step to make sure that we address rewards for failure. Sky News are reporting that you are irritated by the news over the weekend that the board of Royal Mail may be thinking of a substantial increase in the Chief Executive's pay package and you are threatening to use the Government's vote to vote against any substantial increase. Can you just tell us where you stand on this?

Vince Cable: Royal Mail have not approached me, as a principal shareholder, and I have not spoken to Sky News. Obviously there are people out there fishing for information on a quite sensitive subject, but I would simply point out to the senior management of the Royal Mail that we have introduced a remuneration system that requires shareholder approval—

Chair: Minister, we are having difficulty in hearing you. Do you think you could speak up?

Vince Cable: I would simply, when I do meet them, remind them of the new policy that shareholder approval is required for their remuneration policy and also that they should be consulting with their own work force on matters of pay. I think the speculation is rather

premature. They have not made an approach to us as a shareholder, and I think people are just anticipating an argument that might come down the track or may not.

Nadhim Zahawi: Thank you for that clarification.

Chair: We will watch that closely and bring you back on it.

Q10 Nadhim Zahawi: Yes, indeed. The demand for gas for electricity production reduced in the third quarter of 2013 and contributed to the utilities sector's contraction by 5.9%. Is this a positive or negative development, Secretary of State?

Vince Cable: It could be an indicator of weak demand, but all the other evidence we have from the rest of the economy suggests that is not the case. It could be a positive factor, which is that we are learning to use energy much more efficiently. As you know—we have discussed it in this Committee—there are enormous pressures on the energy-intensive industries and there are problems of competitiveness internationally. I know from talking to them that they are making big steps to use gas and electricity more economically and that may well be a factor there.

Q11 Nadhim Zahawi: You have told us in the past that this could be a reflection of the fact that other bits of the economy are not going so well and therefore pulling demand up. However, as you quite rightly point out, other parts of the economy are doing well, so you think this is more about efficiency.

Vince Cable: It could be. It is a good question and I am just guessing as to what the reasons might be; I have not done an analysis on it. But, prompted by you, we can go away and do more work on it.

Q12 Nadhim Zahawi: That would be very useful, if you can do an analysis on this.

Martin Donnelly: It is perhaps just worth adding that the figure you quoted is, of course, correct, but on an annual basis it has been pretty flat. Production output only fell by 0.1% and there was growth in water supply and sewerage, so it will be interesting to see what the next quarter's figures look like.

Q13 Nadhim Zahawi: The Chancellor said that it is right to focus on productivity and what we can do to improve the productivity. Is this a priority for the Department?

Vince Cable: It is, but I am reasonably positive about what is sometimes presented as a negative figure, which is the fact that productivity has fallen very sharply in the last five years since the peak of the crisis. Essentially what has happened is that, contrary to many people's expectations, unemployment has been nothing like as bad as it could have been or it was in the interwar period or it is in countries like France and Sweden. Unemployment has been kept down and employment has grown through a very difficult period, but at the expense of productivity. Clearly though, over the medium and long term, if the country is going to recover in a sustainable way and if living standards are going to rise, living

standards can only rise on the back of productivity, so clearly it has to be a key priority and it is one of the themes that underpins our industrial strategy. All the work we are doing with aerospace, the motor vehicle industry is about driving productivity improvement.

Q14 Mr Bain: If we can take that point a little further, the ONS has published new data this morning and that indicates that of the last nine quarters productivity has fallen in this country in seven of them. At a time when the pressure from unit labour costs is hardly high and hours worked in the economy are now higher than they were in 2008, do we not have a really serious problem here and what is the strategy of the Government to address this?

Vince Cable: We have a serious problem if it continues, but the poor productivity performance is a flipside of having a relatively favourable performance on employment. But if we are going to go forward, you are perfectly right: productivity has now to improve. As I say, it is one of the key drivers in our industrial strategy. Our Department is working with some of the key industries—aerospace, cars, biosciences, supply chains for energy and others—and a lot of the work around innovation, skill training, supply chain rebuilding is about improving British productivity. That is what we are doing and you are now seeing spectacular improvements in productivity in some of those key manufacturing sectors. It has not happened through the rest of the economy.

Q15 Nadhim Zahawi: You have answered my next question. The Office for Budget Responsibility is saying that it is difficult to explain the abrupt fall and persistent weakness of productivity. I was going to ask you what your analysis is, but you have given us that analysis. It would have been nice to have been explicit in addressing this major issue of productivity in the Annual Report and Accounts and I just wonder why that was not addressed so clearly in the Annual Report.

Vince Cable: It certainly isn't through lack of awareness of the issue. We may just use different language. We talk about achieving growth and growth is a combination of the labour force and productivity. It is the two things together and that is simple arithmetic, so it is implicit in our emphasis on growth.

Q16 Chair: You quite rightly commented that this, to a certain extent, is the flipside of higher-than-expected sustained levels of employment—higher than one would reasonably expect looking at the GDP figures. The flipside of that, of course, is that private sector investment has been pretty flat. Do you think there is a very real danger that the ability to have low-cost labour is demotivating companies from investing that potentially could raise productivity?

Vince Cable: I certainly accept it is a factor. If you are a company contemplating automation, there is obviously a reduced incentive to automate if your labour costs are being driven down in other ways, which is what has happened over the last few years. The issues around investment are very real. If this recovery, which is very important and very positive, is going to take permanent form, the next big step will be evidence of substantially increased investment. For perfectly good reasons it is not happening at the

moment. It may be that factor that we have just discussed is a much bigger factor. There is still a lot of spare capacity around and if you are a company, you use up your existing capacity before putting in new plant. That is what all companies would sensibly do and the evidence we have from industrial surveys—bodies like the Engineering Employers Federation, the CBI and others—is that business is now much more positive about future investment. As I say, it is only survey data; it is not yet the backward-looking ONS data, but it does indicate that those cash piles that have been sitting around will get into real investment.

Q17 Mr Binley: Whilst we are on this focus of productivity, I notice that the Office for Budget Responsibility said, beyond what you have already quoted, that much of the loss of productivity is structural. Slightly ominously, they said it “will not return even as the economy recovers.” If that is the case, we have a really serious problem that needs attention and maybe, you might say, needed attention before now. May I ask if you agree with that and, if you do, what your Department and Mr Donnelly might be doing to ensure that we make sure it does not happen?

Vince Cable: Given that it is the OBR, I would not want to quarrel with their analysis. They are authentic, independent and we take their analysis very seriously. I think the point that Robert Chote and his team would make is that we have not just had a historically disastrous financial crisis with all its consequences; it has been dealt with in an unusual way, particularly by extremely cheap monetary policy, and this has had all kinds of consequences for the way that business behaves. But we are now getting back to something like normality and the next big step, as I have already said, is to look at a sustained period of investment leading to productivity improvements.

You asked what the Department is doing about it. I talked about the industrial strategy. What we would argue in the Department is that there is quite a lot that the Government can do, if I can use economic jargon, to crowd in private investment. Some of the things we are doing through the Green investment bank—co-investing private projects, the work we are doing through the Regional Growth Fund, the co-financing of investment in innovative projects in universities—would not happen were it not for the interventions we are making. As I say, we are limited in what we can do for financial reasons, but that investment is helping private investment to happen and that, in turn, is helping to drive productivity.

Q18 Mr Binley: May I switch focus? Much of what we are talking about is very dependent upon the good work or otherwise of the Department and that is why I want to switch to Mr Donnelly. You may remember that the staff surveys last year were not particularly good; in fact, they were quite depressing, as commented on by my colleague Mr Zahawi. You went on to say that you were ahead of the game in restructuring and you pretty much bet your salary on the fact that the figures would improve. They have not done so, Mr Donnelly, and I therefore wonder whether you are going to advise the Secretary of State that your salary ought to be reduced.

Martin Donnelly: Well, fortunately for me, Mr Binley, they have improved. We have seen a significant increase of 2% in the previous year, 3% overall in this year, very large

increases in terms of management leadership and vision in the Department and of all of the issues that we surveyed, about 80% of them had more positive scores than the year before. That does not mean there is not more to do and we are very focused on delivering it, particularly over the year ahead, in terms of management systems and ensuring that staff's voice continues to be heard, but we are making progress.

Q19 Mr Binley: I would expect much, much quicker improvement. Let me come back to what you said about taking the pain early on and then look at why your engagement statistics to the Civil Service average of 58% are down. That is the fact of the matter. Now, I repeat, given that you said they would be above that situation this year, will you hold to your word and tell the Secretary of State that you have not done what you said you would do and therefore you feel that you ought to have a cut in salary, as you suggested?

Martin Donnelly: I said they would improve and they have improved. They have improved significantly and across the board. It is true that we are still below the Civil Service average and that is not where we want to be. We are doing pulse surveys, as we discussed last year, to make sure that we are checking that progress is continuing during the year, but we have had some rather large increases in key areas of clarity of vision, of shared approach between Ministers and officials, of staff feeling that they are listened to and their ideas are taken note of.

Q20 Mr Binley: Your overall statistics are below the Civil Service average. If your objective is to be average, I am not sure that I, as a businessman, would agree that that is a good thing to do. I would expect to see you above that average.

Martin Donnelly: And our longer-term aim is to be so.

Q21 Mr Binley: You told us to hold you to that if you did not achieve better results in that respect and I repeat again: are you prevaricating or will you go to the Secretary of State tomorrow and say, "Look, Secretary of State, I really didn't achieve what I said I would, and therefore take 20,000 quid a year back"?

Martin Donnelly: But we did achieve an improvement. We have further to go, but we have achieved a significant and wide-ranging improvement across the key—

Mr Binley: As a businessman, I would be bitterly disappointed with the record shown in this survey and I expect you to be too. Let me now just change focus one more time. It is a matter of interest to me—

Q22 Chair: Just before you do, could I just raise the point that, if my memory serves me right, the reasoning that you put for the poor scores last year was that you had had to take a whole raft of unpopular staffing decisions early, that you had done it, shall we say, ahead of other Departments and it would be reasonable to assume that morale and figures in the BIS Department would show an increase. Given what you said—and you made the comparator

with other Departments—would it not be reasonable to expect you now to be ahead of those figures reflected in the difficult decisions that are being made in other Departments?

Martin Donnelly: It is absolutely reasonable to look at the trend and the pace of progress. If you disaggregate the figures, in a lot of areas we have moved up to or beyond the Civil Service average, including in terms of leadership, confidence in management, confidence in vision for the Department as to what we are trying to do in partnership with our Ministers. We have also delivered a lot. So while there is certainly more to do, I am personally very pleased, and I think it is a reflection on the hard work of the Department and its leadership team, that we have moved them in the right direction. The areas that remain a challenge are: pressures of work, where people are concerned about how much work they have to do, and there is, rightly, concern about the quality of our IT, in particular, which we are in the process of changing over the spring as we move to a new IT contract. I would hope and expect that that will be reflected in the figures as we go forward too.

Vince Cable: Can I just say perhaps a brief word in defence of the Permanent Secretary, who is under pressure on this? The reason why there is staff pressure is because we are trying to do some very tough things in terms of cutting administrative costs. Over this Parliament, we will have cut our administrative costs by over 50%, which I think is one of the highest, if not the highest, in Whitehall. We have been asked to do more and that is right, but I would not expect the staff necessarily to be cooing with pleasure at being put under growing pressure, which they are, and they are not ending; the Treasury has not said, “Thanks guys, you can now relax.” There is pressure to do more and more in terms of administrative saving and pressure of work and that is the context in which the staff are operating. I do meet the staff representatives frequently—well, every six months, if you regard that as frequent. I have not had any feedback from them, and speaking face-to-face with our representatives, that they feel the Department is managing this badly.

Mr Binley: Your defence of your staff is admirable and that is recognised. I would say, however, in terms of Mr Donnelly’s words, that had there not been any improvement at all, I would be asking him to give you his resignation, not only to take a £20,000 cut in his salary, quite frankly, as Mr Donnelly suggested last year.

Q23 Chair: We will look forward to seeing the Department perform above the Civil Service average next year. Do you think that is possible?

Martin Donnelly: It depends partly on what happens everywhere else. I can say that for our Department we are committed to continuing to improve across the range of indicators, because they are relevant to the quality of service we provide to Ministers, the taxpayer and the country as a whole, so it is important.

Chair: Well, I am sure we will be looking at this in one year’s time and will be holding you to account again.

Q24 Mr Binley: I just am concerned—forgive me, this is not a personal attack on you in any sense, Secretary of State. The storms of political innuendo and party friction were described by a former Prime Minister as being the rocks on which Governments flounder. They have been battering at your door relentlessly of late and I wonder if you would tell me,

in terms of the performance of your Department, whether those shocks really do smack home. I do not wish to say specifically what I am talking about, but I think you understand.

Vince Cable: I would be interested to know what those specific things are.

Q25 Mr Binley: The specific things are the troubles created for your particular party by Lord Rennard; that was the particular point, but I wonder whether those shocks do harm Government.

Vince Cable: I do not see the connection between Lord Rennard's affairs and the morale of my staff. It is an interesting—

Q26 Mr Binley: No, I was talking about whether they harm Government, Secretary of State.

Vince Cable: I am not sure that they do. I would simply say, on behalf of my own Department, like everybody in senior positions in the Cabinet, we take a bit of a battering, and that is life and you learn to cope with it; I am still here. In terms of BIS specifically, I would simply say we have seven Ministers: two Lib Dems, five Conservatives. I would say—and I am not saying this just for effect—we have a very good collegiate team and it works across the coalition. I frequently speak out, as you know, and make waves on policy issues, but in terms of the human relationships and working relationships at the coalface, we do very well. These things happen outside Government and—

Q27 Mr Binley: So we can disregard it in that respect.

Vince Cable: I think you can, yes.

Mr Binley: I am grateful and I am pleased about that.

Q28 Paul Blomfield: Secretary of State, I remember back in autumn 2010 when we were debating the student funding changes, one of the positives that you and, indeed, the Deputy Prime Minister used to try to win over waverers was the extension of tuition fee loans to part-time students for the first time. Since then, part-time entrants at undergraduate level have fallen by 38%. What is your reflection on that?

Vince Cable: I am concerned about it and, you are quite right, it was one of the areas where we thought we had made a step forward. Some of the other things we had to do were painful and reflected shortage of money and we wanted to do it in a sensible way and, where full-time undergraduates are concerned, we have been pleasantly surprised by the outturn: demand has not been affected; people from underprivileged backgrounds want to go into higher education in great numbers; the finances of the universities are in much better shape. There are some very good outcomes from what was a very painful exercise.

On part-timers, none of the factors that are negative in respect of the rest of the university sector seem to apply, because there is no numbers control. Part-timers have been given, as you acknowledged, access to the student loan scheme. I meet frequently with the Open University and other institutions that do part-time students to try to get to the bottom of this. Nobody has a simple explanation for it and it is a big challenge to us to try to turn this round. But I accept that, in the spectrum of things we do, this is a weak and worrying area.

Q29 Paul Blomfield: Do you think it was helped by the decision to take £40 million away from the part-time student component of Student Opportunity Funding?

Vince Cable: Sorry, are you talking about the public discussion of that?

Q30 Paul Blomfield: No, I am going to come on to that, but the decision last year to take away £40 million, which was the part-time student funding component of the Student Opportunity Allocation.

Vince Cable: Like a lot of the things we have had to do, it was not pleasant.

Q31 Paul Blomfield: I know it was not pleasant, but did it help the situation in terms of addressing the issue?

Vince Cable: I am sure it did not help the situation, but the point I would make is that the fall off in part-time students is a trend that has been going on for quite a long time.

Q32 Paul Blomfield: But it has accentuated steeply since 2010.

Vince Cable: It certainly did not help; I would accept that.

Q33 Paul Blomfield: More specifically, what are you doing about it?

Vince Cable: There are various things happening that are positive in that space. I suppose if you are asking what we are doing about wanting to encourage them, the area where part-time study has not fallen off and, indeed, it is positive, there is real growth, is in higher education provided in further education colleges. That is something we have actively promoted. We want to see higher education widened and through a range of providers and FE colleges have a particular, distinctive role. They may be better than conventional universities at picking up people wanting a second start in life, which is where a lot of the part-time students come from. We have also supported adult participation in other ways through the FE sector, so that may be one way in which we can address the adverse trend, but I frequently meet the sector. I am very keen to take ideas from them as to how we can reverse a trend that certainly I do regard as worrying.

Martin Donnelly: Can I add one example to that? We have been looking at the evidence, as we do when these things happen, and we commissioned Universities UK to do a report into this issue, which was published, you may recall, in October. One of the issues they identified was the question of equivalent and lower qualifications policy—that we focused support on students studying for the first time at a particular level. In the light of that, we have looked at this again and relaxed the rules in engineering, technology and computer science.

Q34 Paul Blomfield: May I move on to the issue that I think you were anticipating, Secretary of State, in relation to the Student Opportunity Allocation? We discussed this with the Universities Minister last week, when he was not able to give us any assurances that the allocation would not be cut. There have obviously been reports that it is to be cut by 60% and indeed that the Chief Secretary to the Treasury is pushing for a complete withdrawal of that

funding. What is the current position and would you not accept that it would have a significant impact on widening participation programmes, particularly in relation to retention and support for those universities that are doing most in this area?

Vince Cable: I ignore some of the press noise around this because this is the time of year when the Government sends a letter to HEFCE—the Higher Education Funding Council—setting out financial allocations. We are currently in the process of deciding how those should be made. We have increased funding for certain kinds of activities, as you saw in the autumn statement. Equally, we have to cope with a top slice; we have to cope with the 2015-16 spending review allocations, which of course affect universities because the academic terms force us to think over two years. So there is a process of allocation currently taking place.

Now, it is perfectly understandable that the people out there in the universities are concerned about how it will affect them and there is a time-honoured tradition where people look at the worst-case scenarios affecting their particular set of interests and talk about it publicly. We understand that, but I think within a short period of time you will find that we have come to an agreement on how to make those allocations. I am very conscious of the pressures around that particular budget. I cannot give you concrete assurances, because we have not come to a final decision, but I certainly do not want to do anything that would damage the wider participation agenda.

Q35 Paul Blomfield: When are you planning to send out the grant letter? I think in the past it has never been sent later than 23 January.

Vince Cable: It may well have been, but we do not have a fixed deadline. We have to get agreement as to how we do it with our colleagues in Government and that is what I am working on. It will be soon, but I am not giving a date.

Q36 Chair: I have been reading for the last two weeks that it was due soon. Given the fact that there is, I think it is fair to describe, a degree of nervous uncertainty within the higher education sector, and that certainty is a very important thing for all businesses, and the HE universities are businesses as well, when can they reasonably expect to know that?

Vince Cable: As I say, I cannot give a precise date. The important thing for them to understand, and I am sure you do anyway, is that we are dealing with quite a lot of moving parts. It is not just the letter to the universities. There is a letter to the Skills Funding Agency, which affects FE; we have to get that right and, as you know, I attach great importance to FE and the contribution it makes. There is the funding of science research. These things all interact and we have to get the various moving parts working together before we make a pronouncement affecting one sector.

Q37 Paul Blomfield: Would you accept, though, Secretary of State, that it would have significant impact on some of the neediest groups of students within higher education? Sheffield Hallam University in my constituency has written to the Member for Sheffield Hallam pointing out that it is those with caring responsibilities, looked-after children, low-income families, disabled students who would be the most impacted by withdrawal of Student Opportunity Funding. Do you think that is right?

Vince Cable: Yes, I know the Vice Chancellor and his views, which are shared by many other vice chancellors and I share the analysis. Yes, we have to be very careful, in the allocations we make, not to damage the wider participation agenda. I visit universities frequently, as does the Universities Minister, and I am very conscious of the pressures they are under.

Q38 Paul Blomfield: You made reference to the autumn statement. Obviously, the Chancellor in the autumn statement said that the proposed expansion of student numbers was directly funded by further sales of sections of the student loan book. Last week, your Director of HE, Matthew Hilton, told us there was no such link. What is the situation? Who is right—is it the Chancellor or your Director of HE?

Vince Cable: You may correct me, but I am not sure that he used the word “direct” link. There is a link in the sense that the point he is making is that we want to spend more money on important priorities, including higher education and our Department, through asset sales, is helping to realise cash, which indirectly supports it. I do not think the Chancellor intended to say that there was some kind of one-for-one linkage between the two things. Symbolically it is quite important.

Q39 Chair: I think if you read the autumn statement, there is no other reasonable interpretation of what he said.

Vince Cable: Well, I am just giving my interpretation.

Q40 Chair: In that case, I think it is a very unreasonable one. The autumn statement was pretty explicit on this.

Vince Cable: I know members of the Committee understand higher education funding. It is a complicated area, but you obviously do understand as a Committee that it is a different kind of funding in terms of the way that public accounting deals with things. I do not think anybody in the Treasury or anywhere else in Government would expect a mechanical, one-to-one relationship between the two things.

Mr Walker: My recollection is that the wording used was “offset” rather than “directly linked”.

Q41 Chair: We could probably have a long debate about the relationship between “offset” and “directly linked”, but I think it was a reasonable interpretation of it.

Vince Cable: I think what Mr Walker says is absolutely right. There is an offset, but it cannot be done in a mechanical, one-to-one way.

Q42 Paul Blomfield: Mr Hilton did say that the Treasury had underwritten the expansion regardless of whether the loan book was sold. What impact will that have on your budget if the book is not sold?

Vince Cable: Howard, can you explain the financing of it?

Howard Orme: The context of the issue is that this was additional spending and the Chancellor was saying how within the fiscal envelope that was going to be funded. If there is a variation against the envelope—say, for example, we did not press the button on student loans—then we would have to be sitting down with the Treasury along with the rest of the Government to see how that was going to be made up, but it would be taken as one of the variations that has to be handled. There is specific extra spending that needs to be funded. There is a proposal in place. If there is a variation to those plans, then there is a discussion with the Treasury about how we handle it.

Martin Donnelly: I would just add that it is not unique to do this. We did it, you may recall, a couple of years ago in terms of the spectrum sales and how that funding was going to be used to pay for capital. It is a way of bringing these issues together as we go forward. We obviously have to manage our budget within the overall spending review process and then, beyond that, we would have to look again at the wider liabilities and assets of the Department.

Q43 Paul Blomfield: On the management of the Department's budget in relation to higher education, a failure to have controls on private sector courses was something that a number of people, including this Committee, flagged up warnings about. As late as March, the Universities Minister was robustly defending that policy; seven months later, you scrapped it and imposed controls. What hole did that leave in the budget and why did you fail to recognise the warnings that you were given?

Martin Donnelly: You will not be surprised to hear that I do not have anything in substance to add to what David Willetts said to you last week, but it is important to underline in this area, as I know the Committee is aware, that there are considerable uncertainties. As we move into opening up demand, the question of how many, or indeed how few, students are going to take up, we do not have a lot of historical data to do estimates from, so inevitably there is a degree of uncertainty. We have to take our best central estimate and then we have to be ready to respond rapidly, as we were in this case, when it appears that in certain areas, and particularly in certain courses, the take-up has been much larger than we had expected. That is what we have done and the measures that we have taken are having an impact and working. As David Willetts said, we do ultimately have to live within our budgets.

Q44 Paul Blomfield: My question was, what hole has that left in your budget? What was the cost of unanticipated costs as a result of the decisions you took on that? Perhaps you can write to us on that, because I am testing the Committee's patience.

Chair: It would be very helpful if we could have a figure on that.

Martin Donnelly: Okay.

Q45 Mr Bain: In the old system of university regulation, HEFCE was able to attach conditions to the provision of grant. With the shift now towards a predominantly fees-based funding structure, would you accept that HEFCE's ability to have the same leverage in regulating the system is diminished?

Vince Cable: Logically, yes, indeed. That is the new world we are moving into in which there is greater freedom for students and universities, but yes, the degree of leverage is necessarily diminished under that system.

Q46 Mr Bain: Is that not a concern—that you may end up weakening the ability to regulate the sector as a whole?

Vince Cable: The aim of Government is not to have more regulation of the sector for its own sake. There are certain things we want the sector to achieve. Indeed, in the autumn statement we had additional funding for STEM subjects, particularly to reinforce the teaching of engineering and high-cost subjects, and we can send signals to the sector in that way. But direct central control is clearly diminishing, because that goes with the model.

Q47 Mr Bain: The Higher Education Institute has expressed the view that primary legislation might be required to sort out, in a sense, who is the lead regulator in the system and to provide clarity on that front. What would your response to that recommendation be?

Vince Cable: So far, we have managed without new legislation and maybe in the next Parliament people will come back and have a look at that, but through dialogue with the sector and through the various financial streams that we have, we have been able to achieve our objectives. But I think there is an open debate out there as to whether more or less regulation is needed and it is something we may well have to come back to.

Q48 Mr Bain: Minister of State Willetts's response to many of these points has been to point out that there is a new sanction that is available under the new regulatory system, which involves barring students from institutions that had not met the terms and conditions for access to state loans. Has that new power come into force as yet?

Vince Cable: Basic quality requirements, yes, indeed. The controls that we have put on the private providers have that effect.

Q49 Mr Bain: Is there a problem, though, with, in a sense, HEFCE being asked to regulate funds that it does not directly provide? A lot of these funds are now coming from the private sector.

Vince Cable: Indeed. It is no longer a Gosplan institution—the higher education system. We had what we called free universities, but the higher education system operated like the former Soviet Union. Universities were told exactly what they could do, exactly how many students they could have and exactly what they should study. We do not think that is appropriate in our kind of world. We want students to be able to choose; we want universities to have freedom to adapt their courses, so inevitably HEFCE, which is the intermediate body between Government and the sector, does not have the degree of control that Stalin would have liked under that kind of system. We are moving into a different world and it does involve loss of control.

Q50 Mr Bain: Last week with Minister of State Willetts we explored another of the points that the Higher Education Commission have expressed views on. They have said, “We

are concerned that there is a growing unregulated sector of higher education that may be offering insufficient provision to students.” What is your Department doing to address this?

Vince Cable: As the Permanent Secretary said, and maybe he can develop it a little bit, we have taken concrete action to rein back some of the expansion in the alternative providers. Just to be very clear, a lot of these alternative providers are very good, innovative institutions. They do not necessarily operate like traditional universities, but they provide high-quality courses in a different way and amongst the alternative provision come the FE colleges, which goes back to the discussion with Mr Blomfield. We are not trying to rein back good, innovative experiments, but at the bottom end of the market, if I can put it like that, there may well be serious problems of quality. There also is an immigration control issue, which we have tried to deal with too. I do not know whether you want to set out the specific measures we took.

Martin Donnelly: One important one, as you will be aware, was introducing number controls for alternative providers in the 2014-15 financial year based on the 2012-13 recruitment levels. Then, from 2015-16, we would aim at high-quality alternative providers and that is the quality control point. We would free them in the same manner as for other HEFCE-funded provision while keeping the control on the higher-risk end. We are trying to get that balance right and it is one that we have to go on reviewing as we go forward.

Q51 Ann McKechin: Turning to the issue of apprenticeships, Secretary of State, what analysis has your Department carried out about which age group benefits most from undertaking apprenticeships and which age group benefits the economy most from undertaking apprenticeships?

Vince Cable: The figures show that apprenticeships have been expanding quite rapidly for all age groups except 16 to 19, and that almost certainly reflects employer preferences for people who have work experience. That is why the apprenticeship reform that we are taking through at the moment, and that my colleague is leading on, is bringing in this concept of traineeships, so that young people, school leavers, can pass through a period where they have the basic educational requirements, where they have some work experience and support for that and then they are in a better position to go into the apprenticeship route. As it stands at the moment, the 16 to 19-year-old has been declining relative to adults.

Q52 Ann McKechin: Yes, and it has declined in the recent year. From your analysis, are these young people going into formal education in another sense or are they forming part of the NEET group?

Vince Cable: Quite a lot of them are going into formal education. There is obviously a big NEET problem that we are trying to address in a variety of ways with the Youth Contract. It is high and it is a worrying social phenomenon.

Q53 Ann McKechin: Has there been interest from employers about this traineeship-type model and when can we expect it to deliver?

Vince Cable: It is only just getting under way. I have seen some figures in the last week or so that suggest that there is genuine interest in the traineeship model, but it is far too early. We can certainly brief you on the figures we have, which are very fragmentary.

Q54 Ann McKechin: It would be helpful. Given the urgency and given the fact of the extent of long-term unemployment amongst under 19-year-olds in this country, which remains very high, I would have thought there would be a strategy that would tell us the date of implementation, how many are anticipated in each year. It would be very helpful for the Committee if we had more information.

Vince Cable: We can certainly give you a progress report.

Q55 Mr Walker: This is a key area, particularly because we have the whole discussion about raising the participation age. One of my concerns is that that is often misrepresented as just raising the school-leaving age. Can you confirm, Secretary of State, particularly in respect of the BIS Department, it is very important that we see raising the participation age as work, training and school and that therefore, overall, it is your aim to increase the number of apprenticeships, traineeships, whatever you want to call them—the number of training opportunities in work for 16 to 19-year-olds?

Vince Cable: Yes, that is the objective and, clearly, I have been out a lot talking to employers. They find it very difficult to take on teenagers, partly because a worryingly high number do not have basic English and maths and mainly because habits of work have not been established. In particular, in the economic conditions that we have had recently when companies are under pressure, particularly SMEs, they want people who are ready for work and we have to create a pathway, which is what the traineeships are designed to do.

Martin Donnelly: We already have over 500 company providers who have committed to delivering traineeships in the current year. It is a constant effort and a lot of time and indeed funding goes into trying to talk to employers, including small employers, to make sure that they connect with the apprenticeship system, which of course is in their interest, so we have another apprenticeship week on 3 March. We also have systems of incentives when they take on younger employees; they get a £1,500 payment in smaller businesses. We are working very hard to ensure that having raised the quality of those 16 to 18 apprenticeships, as we needed to do, we are also extending the range.

Q56 Ann McKechin: Mr Donnelly, on the point you just raised about the apprenticeship week, what are you going to do about the gender segregation of apprenticeships as part of that initiative and what discussions are you having with small employers, in particular, about the gender divide, which has been raised by our Committee?

Vince Cable: There is recognition that there is a particular problem around engineering apprenticeships. That is where there is a desperate shortage of young women. The analysis we have suggests that the problem is not really with the employers. Of course, no doubt some of them could be more sensitive to concerns that women have, but it starts much earlier on; it is 12-year-olds, 10-year-olds. It is about getting people into the right career path.

Q57 Ann McKechin: Could I just turn to the issue about the Advanced Learning Loans? Our Committee staff noticed a reference reported in *FE Week* that you are withdrawing this particular scheme and there is also a reference in the National Audit Office Departmental Overview, but we were unable to find any statement that you had made to Parliament in this regard. Can you tell me, was a written Ministerial Statement made or what the announcement was?

Vince Cable: The 24+ loan scheme has worked well. In other words, there is a very big take-up for most of the training and it is exceeding our expectations, but in the apprenticeship area there was very little take up. We concluded that that was not working and decided to cease it.

Q58 Ann McKechin: Yes, but what I am asking for is, when did you make that decision and how did you make that public? We only found out simply by chance, as a Committee. There did not appear to be any announcement made to Parliament. It seemed to have gone into a newspaper first of all.

Vince Cable: I can certainly try to find out why we did not brief Parliament more thoroughly. That is a perfectly fair point, but we responded to evidence.

Q59 Ann McKechin: There are only 516 who have used that particular scheme in the last nine months. Can you tell me what is happening to the money that was put aside for those loans? Is it going to be put back into the apprenticeship budget?

Vince Cable: That is my understanding, but can we check that?

Howard Orme: Yes, it has been recycled into other parts that are doing better.

Q60 Chair: I understand from *FE Week* that the SFA website is still advertising these loans. There does seem to be some muddle and confusion. An announcement is in *FE Week* but Parliament is not aware of it, and the Skills Funding Agency, not exactly an insignificant player in this area, does not seem to be aware of it. What is going on?

Vince Cable: If they are advertising 24+ loans for FE that is fine.

Q61 Chair: No, loans for apprenticeships. I have to qualify what I say. It is taken from FE. I am assuming it is correct, but no doubt, if it is not, you will clarify that.

Vince Cable: I do not know where the communications failure has occurred. We can investigate that, but certainly it is absolutely right that they should be advertising 24+ loans, because that is the policy and it is working. On the apprenticeships, it has ceased and we can find out why the message has not got through.

Chair: I would be grateful to receive that information.

Q62 Katy Clark: You said earlier that the small business lending market is very depressed and the latest *SME Finance Monitor* shows that SMEs are overwhelmingly under-confident that their application for a loan or an overdraft would be approved. You know this is a massive problem up and down the country and it is having a big effect on businesses. On

average, the confidence does not seem to have improved over the last two years. Do you think this lack of confidence is acting as a brake on growth?

Vince Cable Yes I do, and it is a potentially very serious one as the economy recovers, because the backbone of the economy and job creation is the SME sector and they have to feel confident that they will have access to finance as they do it. It was because we realised that this was a problem and potentially a more serious problem that we set up the Business Bank, which is now operating in different ways. As you know, we pulled together all the various finance schemes and, as a consequence of that, the amount of money available under the guarantee schemes has increased quite dramatically in the last year. As to the new money for new types of lending, as I say, there is a £300 million offer out in the market at the moment, which we are using for unconventional funding. Yes, the premise of your question is quite right.

Q63 Katy Clark: We are going to ask some more detailed questions on the Business Bank, but one of the key barriers seems to be the way the banks themselves behave. 31% of would-be loan seekers say that they felt they were discouraged by the bank, either directly or indirectly. A lot more of it was indirect discouragement; people felt they were put off, so they did not go ahead with the application. What do you think you can do to try to shift that culture so that companies go ahead with the process?

Vince Cable: There is almost certainly a discouraged demand problem. We argue with the banks about how important that really is. What is beginning to happen is that the established banks are changing their culture. Certainly I frequently engage with the heads of the leading banks—Barclays, RBS, Santander and the others—and after a very long period where the major banks disengaged from relationship banking through branches, they are now recognising that was a mistake. They are now retraining staff so that they can engage properly with small business and indeed welcome them rather than regard them as a problem. We are beginning to see that happen. There are now some very good role models; Handelsbanken is the one people often look to as a good example. Some banks—Santander—I know are ambitious in trying to expand their small business lending, but for the established major banks, whether they are publicly or privately owned, this is a more difficult issue, but I think they have the point.

Q64 Katy Clark: You have been before this Committee on quite a number of occasions now and been asked about this issue, which obviously is a concern throughout the House. You have announced a range of initiatives and spoken about a range of things your Department has tried to do. Obviously, there has been a whole range of further announcements over recent months. What confidence do you have that your approach now will be more successful and do you have any evidence that you can give to the Committee to show that we are beginning to see an improvement? You talked about a bottoming out earlier on, but what do you have to show that is evidence that the way you are now handling it as a Department will be more successful than previously?

Vince Cable: I am very confident that the interventions we are making are making a difference and we can certainly make all the information available to you on, for example, the guarantee schemes, which are now much more proactive and have happened. We are not talking about promise in the future; they have happened and are happening. Some of the new types of funding, like to peer-to-peer lending, are happening very rapidly and are happening partly because of Government support through the various schemes that we

have, including those now under the umbrella of the Business Bank. There are changes happening quite rapidly, we are benchmarking them and that accounts in some measure for the fact that I am in a more optimistic frame of mind about that than I have been in the past.

Katy Clark: I know we have time issues, but I think we have some more detailed questions.

Q65 Mr Walker: Clearly, we all want to see banks lending more effectively to SMEs. The Business Bank will not be investing directly in small businesses, so how can it boost lending through to the SME sector?

Vince Cable: It is not lending directly, because that would involve setting up a whole new chain of branches and we do not think that is cost effective, particularly as there are new banks—as you know, Williams & Glyn’s has been hived off and TSB. We think it is better for it to act in a wholesale capacity. The new funding, which is where they are currently out in the market at the moment looking for private sector partners, involves things like new banking institutions that are funding debt in new ways for companies. We hope that some of the new challenger banks may be able to draw on the Business Bank, but that is how it will operate. It will not operate through a high street facade. Maybe people are frustrated and are saying, “Where is the Business Bank? It is not in our area.” It is not intended to be. The leverage that it can obtain in this way is already very striking and through the projects that have already been negotiated—I have forgotten the ratio but it is something like 1:10—we think we can do far more with taxpayers’ money than lending it out directly.

Q66 Mr Walker: I hope that turns out to be the case. You mentioned in your previous comments a degree of disengagement by some of the major banks, particularly on branch lending. Do you think the prospect of a large reorganisation and caps on branch numbers would encourage engagement or do you think that would be a distraction from re-engaging with SME customers?

Vince Cable: I have been critical of that particular proposal, partly on the grounds that a lot of things—we are talking about Mr Miliband’s recommendation—are happening. One of his proposals was to have two new challenger banks. Well, we have just created two new challenger banks out of Lloyds and RBS. It was not straightforward, because there are quite complex issues about dividing up the technology platforms, but that has happened. There is a wide range of challenger banks now coming into the market. We had many of them around the table in my Department a couple of weeks ago, looking at the problems they face in terms of getting access to the clearance network and so on. These things are happening and there is a lot of innovation and the Business Bank is very much behind that.

One thing I have not mentioned and where I would qualify my earlier response to you is there is one area where we do effectively do direct lending, which is through the Start Up Loans scheme. That is growing very, very rapidly. We do work with private and charitable bodies who act as intermediaries, but we are much more directly engaged in that than in other Business Bank activities.

Martin Donnelly: The other specific area it is worth mentioning is the area of wholesale guarantees, where from this spring the Business Bank is going to be able to make it easier

for other banks to lend without having capital issues. That is potentially a very important step forward that makes lending to SMEs relatively more attractive.

Q67 Mike Crockart: You will not be surprised at my continuing interest in the Green investment bank. Having looked at the Mid-Year Report and at the Annual Report, it is quite telling that there is so little detail really about the forecast £700 million underspend in the Green investment bank. In fact, you would have to really be an accountant to pick up on it, because in the annual accounts it makes a small appearance in variance between DEL capital outturn and estimate. Why is there so little detail on that in these reports and what were the reasons behind that underspend?

Vince Cable: They have invested quite a lot already. We had a figure of £700 or £800 million objective and most of that is on the way to being committed. There has been a bit of a hiatus caused by one specific issue, which were the delays in getting out the electricity market review strike prices for offshore wind. That affected the willingness of investors to proceed and make commitments that the Green investment bank will support, but now that issue has been resolved they do not see any problem with pushing ahead with financial commitments. However, if your question is about lack of transparency and lack of clarity, then maybe that is an issue I can take up with the Chairman and try to make sure you are properly briefed.

Q68 Mike Crockart: That was the second part of my question, certainly. Are you therefore saying that you are confident, or your Department is confident, that that underspend will be taken up and it has just been the hiatus in electricity market reform and perhaps the due diligence around what are exceptionally large projects?

Vince Cable: I met the Chairman and the Chief Executive last week and I asked them exactly the same question. They are optimistic that their deal flow is substantial and will speed up now they have clarity over the policy.

Martin Donnelly: It is worth adding that we deliberately set up an agreement with the Treasury, as you will know, on the Green investment bank on the basis that it did not have to rush deals through for an arbitrary end-of-March deadline and it could pursue commercial timing. It has that flexibility between years, which is very important.

Q69 Mike Crockart: From my perspective, the worry I have is that the focus on very large projects is making it quite difficult for them to find investments in Scotland particularly, because although there are huge numbers of projects there, by their nature they tend to be smaller projects. Can anything be done to help them to be able to aggregate projects, to structure finance in a different way to be able to help that?

Vince Cable: I think they are very conscious. This is an institution using public money and the point I have made to them quite often is that we therefore want it to be publicly visible. We do not want to interfere, but we do want it to be publicly visible so that people in Scotland and everywhere else can see where the money is going and identify with what is a very good and successful institution.

The explanation for what you are describing is that when they are dealing with relatively small projects they tend to do it through funds, so there is a kind of aggregation of small projects in funds they support. I have been round large numbers of openings, including a

couple in Scotland, which have benefited directly from Green investment bank activity, but I hear what you say. This is a good institution, we helped to create it, it has good political support, but we must be able to demonstrate what is happening on the ground.

Chair: Obviously, we are now running into time for Prime Minister's Questions. I understand, Minister, that you are okay to stay for some time; is that correct?

Vince Cable: Yes, if you wish me to.

Chair: Yes, and provided we have Members who are not committed to PMQs, then we will continue, for a while anyway.

Q70 Mike Crockart: On a slightly different subject, which is local economic growth, the National Audit Office says that the portfolio of initiatives on local economic growth has seen mixed progress and slow job creation. Your Mid-Year Report identifies that agenda as "a big challenge", so could I ask—put you on the spot—what are your three main priorities in relation to that local growth agenda and how will your strategy achieve those?

Vince Cable: When you are talking about the local growth agenda, we are talking about different things. It is partly making sure that institutions like the Regional Growth Fund are effective. There was some initial criticism of it, but we now feel very pleased with the quality of the projects, the amount of private sector leverage that they are obtaining, so continuing building on the Regional Growth Fund would be No.1.

No. 2 would be improving the overall performance of the Local Enterprise Partnerships. They are, necessarily, of variable quality and varying degree of readiness. We are trying to avoid a dependency culture. We try to encourage them to develop on their own with some core funding, so the work that I do and the Minister of State, Mr Fallon, does with the Local Enterprise Partnerships is crucial.

The third step will be next financial year, when there is a much bigger pot of funding under which the local growth arrangements can work, most of them operating through the LEPs, some of them through a City Deal type arrangement. Making a success of that will be the third priority.

Q71 Mike Crockart: The second part of my question, however, was how are you going to measure, how can you see whether these have been effective? You talk about ensuring that the Regional Growth Fund leverages private funds in, but how are you going to measure the success of that? You talked about the variable quality of LEPs; that in itself is a difficulty. There are difficulties of it being between Departments; it is not entirely within your gift in BIS. There are quite a few challenges there. What processes do you have in place to measure the effectiveness and success of those things?

Vince Cable: If you are talking about a central body like the Regional Growth Fund, there are established metrics that are used in terms of value for money, benefit-cost ratio, jobs created. There is always going to be an argument about how much is genuinely additional. That is an inherent problem when you are supporting new investment: would they have done it anyway? We think we do it in a rigorous way. The Public Accounts Committee are there to hold us to account, to make sure that we are giving accurate and meaningful

analysis, so there is a process in respect of the Regional Growth Fund that is now, I think, pretty impressive.

In terms of how you measure the performance of the Local Enterprise Partnerships, that is more difficult. The whole point about letting go and letting local organisations, including local government, have more discretion is that you lose control of what they do and, indeed, of its impact. We go back to the arguments that were at the heart of the Heseltine report: do you try to do these things out of central Government and control them and measure them and have tight control of performance, or do you just cut some of the umbilical cord to central Government and let local organisations flourish, in which case some of them will make mistakes?

Q72 Mike Crockart: Equally, though, there is a balance between just throwing money at a problem and hoping that it does what you want and making sure that you are getting value for money for that.

Vince Cable: Exactly. It is the issue about devolved government, which you will know from Scottish experience.

Q73 Chair: Given the PAC report on lending to small business and the role of the Business Bank, could you give me some sort of idea of just how you feel you will be responding to that?

Vince Cable: The criticism is a little bit dated. If we are talking about the various financial support mechanisms for SMEs, those have now been rationalised. They are being brought together under the Business Bank—certainly those of central Government; we cannot account for what local councils do. Of the ones that operate centrally, the only exception is UK Export Finance, which operates separately, but all of the others are now rationalised and operate within a common framework and a common system of management, so we have anticipated that criticism and have addressed it.

A more difficult issue is all the various schemes related to business advice. There are some that operate out of central Government, like the GrowthAccelerator, but there are many others operating locally. We have charged the Business Bank with the responsibility of trying to rationalise as much of this business advice as possible, but this is a second priority beyond making sure that the funding to SMEs goes ahead. However, we do want to rationalise those advice schemes and we know that they have proliferated over the years.

Q74 Rebecca Harris: Last year, you reported that about three quarters of UKTI's customers were satisfied with the service they received and I wanted you to comment on how that compares with the latest figures that might be available.

Vince Cable: I do not have the satisfaction surveys to hand, but my impression is that the reforms in UKTI have been effective and are appreciated by business. The big new development, as you will know, is the establishment of local Chamber-based activities on the ground in the countries, which are specifically designed to help SMEs to get out into the big growth markets. I have just come back 36 hours ago from the Gulf, where two of these projects, one in Dubai and one in Abu Dhabi, are being launched this year and I

think this UKTI model now of working through much stronger local Chambers will make a step change for the better.

Q75 Rebecca Harris: If and when you are able to give us the satisfaction figures, we will look forward to seeing them.

My next question is about our export targets generally. We have made some great improvements this year in various areas, but we still have a huge hurdle to go. The target of a trillion of exports by 2020 does not, at the moment, look like it is going to be hit, I believe, but I just wondered if you could comment on how BIS contributes to your ambition to increase towards that target and what impact you feel your Department is having on that at the moment.

Vince Cable: It is disappointing that exports have been flat in real terms for the last two years, but I do not see why this should make us pessimistic about reaching the target objective by the end of the decade, which is still quite a long time off.

Q76 Rebecca Harris: We will need something like a 10% increase year-on-year to reach it.

Vince Cable: Yes. Trying to understand why we are where we are is important. We have had a substantial devaluation in the back of 2008 and 2009 of 25% overall and it is disappointing that that has not resulted in a big increase in export performance and import substitution, as it should have done. Economics tells us that should have happened and it did not and probably the main reason is the fact that half of our visible exports are to the European area, and of course you know about the eurozone crisis. Depending on how optimistic you are about the eurozone, that will influence demand in the future.

The reason why I am positive about the rest of the decade is that an enormous amount of effort has gone in through UKTI at official level and also ministerial support for promoting exports into the big emerging markets. The figures we have vary from the spectacular to the good, and enormous effort has gone into Russia, China, India and then the next tier, Turkey, Indonesia and so on. I am actively involved in that process. I see a lot happening on the ground, but there is a time lag, because when companies pitch up in India or Brazil they do not just walk away with a big export order. It normally takes quite a while to line up your agents and local offices and so on, so I think the effort that has been put into the emerging markets will produce its reward, but there will be a time lag.

Q77 Rebecca Harris: So you think the IMF and the OBR have been unnecessarily pessimistic, not sufficiently gung ho about it.

Vince Cable: Yes, I think so.

Q78 Rebecca Harris: I gather the National Audit Office concluded that each Government Department needed to have a more detailed action plan about how it was contributing to that target. Whose responsibility would it be to split the target into objectives for individual Departments and who would be monitoring Departments' performance?

Vince Cable: I know the Prime Minister takes a personal interest in this through the Economic Committee of the Cabinet. He regularly chairs meetings, oversees the work of

UKTI and individual Departments. It is fair to say that Government Ministers spend much more time than they used to as export salesmen for Britain, even in Departments like, say, Health, which traditionally was not associated with exporting, and my colleague David Willetts sees universities as an export industry. That is a new way of looking at it and he is very often in the field trying to promote exports, so the point you make is well understood even without monitoring it.

Martin Donnelly: The other reason for optimism that I would add is that, thanks to good work by UKTI, Ministers and business, we have retained our position as the first destination for inward investment in Europe. That inward investment, over time, as we have seen not least in the automotive sector, produces both jobs and, very often, more exports. The more we maintain our position as an attractive base for inward investment, the more we help ourselves, over time, with the export performance. I was in France yesterday talking to MEDEF, the CBI equivalent, about Britain as an investment destination for them and got very positive feedback.

Q79 Rebecca Harris: What are the measurable objectives specific to the BIS Department that are contributing to this overall target, though?

Vince Cable: Together with the Foreign Office, we are one of the two sponsoring Departments of UKTI. I have taken a particular interest in what we can do and again it is indirect, because it is a shared responsibility with the UK Export Finance body, which was moribund for many years. There are complicated arguments about legal challenges, but they did very little to promote British exports, frankly, apart from a few big bulky military contracts. It has now been re-engineered. They now have mechanisms to support small business and again we are trying to help in that way.

One other point I would add in terms of what we are trying to do is you cannot just isolate exports. Import substitution is just as important. If you are trying to improve the trade performance of the country, making things here rather than importing them is just as important as exporting, and we are noting a quite encouraging trend in re-shoring in industry and with services—call centres, for example. That is just as good as exporting and in many ways it is easier to realise it. That is one of the big themes of our industrial strategy.

Q80 Mr Bain: Secretary of State, according to the latest figures from the ONS, in the year to November our trade balance weakened and it now stands at £3.2 billion in deficit. We are doing much better in services than in goods. We do have a surplus in services, but our deficit in goods with the EU has worsened to £6.4 billion over that period. What more can your Department and the Government as a whole do in terms of completing the single European market in goods and services? The Commission Work Programme talked about having a second Single European Act. Is that going to make a difference to this trade position that we have?

Vince Cable: I certainly believe in doing more in terms of opening up the single market, but of course it is two-way trade. It does not necessarily mean you benefit in terms of the trade balance, but it is a good thing to do for our economy and certainly one of the British Government's priorities is to promote the agenda of a single market into areas like digital,

which is where it is largely incomplete. In terms of energy, there are wider issues around energy security, but we do not have an effective single market in energy. It will encourage the Commission and member states to complete or certainly make further progress on services. There are all kinds of blockages there around mutual recognition of professional qualifications, for example. However, I have no need to remind you that if we are deepening the single market and particularly services, this is about freedom of movement. As you will have discovered, that is a fairly toxic issue in the UK at the moment, but that is inherent in the single market.

Q81 Chair: Just before we move on, you quite rightly indicated that our export performance will, in part, be determined by the level of demand in other parts of the country over which we have very little control. However, looking at the NAO figures for export—and again I would concede this is a historical problem as well—we basically do not seem to be overcoming it. We still seem to be underperforming in the context of other rivals, including Germany, France and Italy. The NAO concluded: “Departments lack a more detailed action plan on how their work will contribute towards this £1 trillion ambition, for example, by breaking it down into deliverable objectives, what actions they need to take to meet those objectives, and timescales for delivering and quantifying outcomes. The Departments could then be held accountable for their performance”. Would you comment on that?

Vince Cable: All my experience of dealing with the Trade Minister and with UKTI, which would be the delivery body for making these things happen and, indeed, with our embassies overseas, is that they do operate on fairly tight performance metrics. One of the big changes in recent years has been that some of the staff who are brought in from the private sector are paid on a performance basis, so in many ways the spirit of your question is already recognised.

Q82 Chair: Do they have deliverable targets per country-based UKTI unit?

Vince Cable: I think so. Certainly for several of the countries that I go to there are trade targets. I have just come from the United Arab Emirates and the target is £15 billion, I think, by 2015. In India, there is an explicit target and certainly the same is true of China. I do not know if it is a case of everywhere. Usually these are jointly agreed with the country in question, because otherwise they are a bit meaningless. If you are asking for a frank opinion, personally I do not think these export targets help enormously, but they are symbolically useful in declaring an ambition and I think they are fairly common practice, if not universal. Is that correct?

Martin Donnelly: Yes.

Q83 Chair: I do think the NAO said “deliverable”. I think everybody accepts that if you just pluck out aspirational targets, they may not be meaningful.

Martin Donnelly: As the Secretary of State said, UKTI have become much more focused on the metrics of delivery. At the same time, there are some real issues that they are grappling with. Some very large contracts can take several years of work and therefore do not feature in a 12-month period, whereas dealing with smaller-value issues, perhaps for SMEs, would and we need to make sure that we use metrics that add the maximum value

over time. Similarly, some companies who want UKTI support do not particularly want to look at one country, but they may want to look at a range of countries in their own sector and we have to make sure the metrics are flexible enough to do that. What we are also doing is making sure that all of our economists across BIS, the Foreign Office and UKTI itself produce a single analysis of the business opportunities in different countries with a Foreign Office post, so that we are working from the same information base, which then goes through to companies with an interest.

Chair: This should be the last block of questions: ease of doing business, which you touched on a few moments ago.

Q84 Caroline Dinenage: I know that the ease of doing business ranking is something that you put a lot of store by and last year we were ranked 11th by the World Bank in this table and, in 2014, have now gone up to 10th. Are you satisfied with this progress?

Vince Cable: We will only be satisfied when it is No. 1, but there is recognition that this is something we need to do. We want to encourage an entrepreneurial culture and the evidence suggests we are getting a lot of start-ups. Part of doing start-ups is making it easier for people, first of all, to establish their company with all the registration issues around Companies House and tax, and then making it easier for them to take on their first employees, and we are systematically working our way through that. The one tangible area where progress has been made is in the replacement to Business Link, which we have seen has been happening online. The initial experience with gov.uk for business was not brilliant and a lot of work has been done since to improve it, so somebody wanting to set up a business looking for practical help through the online system of advice now has a much better offering.

Q85 Caroline Dinenage: What else are the nine countries that are above us doing better than us, do you think?

Vince Cable: I am not sure exactly, but I suspect that access to finance is tricky. It is very often friends and family, as you know. Other countries, Germany most notably, have a very good local banking system, which we do not have; hopefully, we are getting some signs of progress. That is why we have done the Start Up Loans scheme. I think those are the main areas, but there may be others you want to suggest.

Q86 Caroline Dinenage: So we are making slow but steady progress in that ranking, but in terms of the ease of starting a business we have fallen from 18th in 2013 to 28th in 2014. Why do you think we have fallen 10 places in the last year?

Vince Cable: I do not know how they have measured that, because I have just given you one or two examples of things that are happening to make it easier. Do we have an explanation?

Martin Donnelly: Each of these industries uses rather different and, quite often, inevitably, subjective or impressionistic measures. We are trying to drill down to find out how they are all made up. For example, one of them is how long dispute resolution takes through your courts; another is access to energy in a straightforward way. We are also

trying to market effectively what we have delivered, such as the more than £1 billion reduction in the cost of regulation for businesses over the last three years. We are monitoring each of these indices and we are trying to drill down to find out what difference is produced by change, so that we improve our position as well as focusing on the substance of just making life easier for business.

Q87 Caroline Dineneage: So we are confident that next year, when we all meet again, we will be zooming up the league tables in every—

Vince Cable: That is certainly our aim, but as the Permanent Secretary said, some of these measures are a bit mysterious. We are not just trying to meet the measures for the sake of it. We want it to be easier to start up companies and we have our own way of judging where we fall behind.

Q88 Chair: I thought the response from Mr Donnelly was curious in so far as, presumably, the criteria used to evaluate our standing in effect have not changed significantly in a year and whereas there may be a case for drilling down and finding out about deficiencies, that does not explain the drop in comparative performance.

Martin Donnelly: It also, of course, depends on what other countries do and in one of the indices, I believe it is the World Bank one, our performance stayed very strong but one or two other countries improved theirs and there is quite a lot of bunching. Whether you end up 8th, 9th, 10th or 11th can depend rather more on what other people are doing than on what you are doing, but we are very conscious that this is a relative measure and we want to make sure, as a marketing tool, that the UK continues to improve.

Q89 Chair: Are you looking at what the other countries that have improved are doing that we may be able to adopt?

Martin Donnelly: Yes. What we are trying to do is examine, for each of the key indices, how they are made up, what the people who make them up judge and then how we can change the information they have—and sometimes their information is not always fully up to date or not detailed enough—so that we are giving them the best information that shows where the UK is. In some areas where we do need to improve and, as the Secretary of State said, it makes sense to do so, we are working across Government to drive those improvements.

Q90 Paul Blomfield: Briefly, because I did not want to prolong the discussion earlier, I would ask Mr Donnelly and Mr Orme if they could provide us with subsequent written information quantifying, first, the impact on the Department's budget of the delay in regulating numbers of private providers; secondly, what impact the change in calculation of the RAB charge has on the Department's budget; and thirdly, your current calculation of the cost of the expansion of undergraduate numbers and therefore the exposure that the Department's budget will face if the loan book is not sold.

Vince Cable: The first and the third we have talked about and we promise good information. We have not talked about the RAB charge issue. As I am sure you know—you follow this closely—the RAB charge has increased significantly, mainly because of different projections of earnings growth. If, on the back of this recovery, earnings growth

were to recover substantially in the next few years, the RAB charge would come back down again. It is a volatile statistic, and of course we have to have a number; that is the methodology that we employ. It does not affect the real world, but as part of our long-term accounting we have to have it.

Q91 Paul Blomfield: I very much appreciate that and we had a lengthy discussion with the Universities Minister last week, where he was talking about the modelling the Department is doing based on an anticipation that there might be a longer period of lower than anticipated earnings and therefore just to get some sense of what the impact of that would be.

Vince Cable: We are happy to share the modelling with you as best we can.

Q92 Chair: That would be very helpful. Just before we conclude our questions, could I pick up one issue that you raised yourself? That is the Start Up Loan fund. Can I make it clear that I think this is very important? It fills a gap in the market that is not provided by other, more conventional financial institutions, but it is very much needed and, I believe, is quite successful in terms of the applicants. There has been some press criticism, I believe, of the lack of accountability of the money. Now, bearing in mind, inevitably, such a fund is going to have a higher risk profile than others, could you just say what you are doing to try to blunt any attacks on that fund in terms of accountability for public finance?

Vince Cable: I am not sure I can answer concretely. The key issue with the Start Up Loan scheme goes back to the previous question, it is the RAB charge: what default rate you assume. That is what the Public Accounts Committee and indeed your Committee will want to know. These are very early days and there is quite a small default rate, as you would expect; they have not been going very long. After a year, who knows? The Prince's Trust has a default rate of 40% or something¹, so if we do better than that we would be doing particularly well in terms of the integrity of the loans. Your question is a perfectly fair one. It is taxpayers' money and some of it will be lost and we do need to have a proper system of measuring this. I am sure our people do. It is a question of how we then feed it into the accountability mechanisms, isn't it?

Martin Donnelly: Yes. The other aspect that we do try to be aware of and you will be aware of, which is difficult to put a monetary value on, is people who fail in six months or a year may restart more successfully in two or three years. Our figures do not pick that up, but it is a reality and it is very important socially as well as economically. We do need to take a broad view of this while making sure we safeguard the money wherever we can.

Q93 Chair: Yes, I quite understand that. I am trying to get replies that will find a political rebuff to those critics of it because, like you, I feel it is a very important scheme, but it is one that is vulnerable to attack. When do you think you will be in a position to give us some figures on the effectiveness of it?

Vince Cable: On the first year's work, do we know?

¹ Correction from the Prince's Trust: the default rate for the Prince's Trust is currently 30% and not 40% as quoted.

Martin Donnelly: I am not sure, simply because to give you meaningful figures we will need to map against previous experience, like the Prince's Trust.

Q94 Chair: I accept that there are comparators that you would want to evaluate it against, yes.

Howard Orme: We can give you figures on the start-up, but I take the point that this is a high-risk area, so we need to make sure we do protect the reputation there. Given that they are loans, they will need to run their course before we really get to see the performance. We also want to see the impact they are having in business terms.

Q95 Chair: Yes. Even at this point, though, you should be able to give some idea of the level of interest and take-up, even if you cannot give the level of detail.

Vince Cable: Take-up is not a problem.

Chair: I would be grateful for that information. We did have some other areas of questioning, but many of them can be addressed in terms of written questions, so may I thank you for coming before the Committee and staying during Prime Minister's Questions? I also thank the Committee Members, many of whom would probably have wished to be in Prime Minister's Questions. Arising from your responses, obviously we may feel it appropriate to ask some follow-up questions and would be grateful for your response on them, but thank you very much, Minister and your staff.