

Public Accounts Committee

Oral evidence: Investigation into financial support for students at alternative higher education providers, HC 811

Monday 15 December 2014

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Members present: Margaret Hodge (Chair); Mr Richard Bacon; Mr David Burrowes; Stephen Hammond; Chris Heaton-Harris; Meg Hillier; Mr Stewart Jackson; Austin Mitchell; Stephen Phillips

Sir Amyas Morse, Comptroller and Auditor General, National Audit Office, Gabrielle Cohen, Assistant Auditor General, National Audit Office, Peter Gray, Director, National Audit Office, and Marius Gallaher, Alternate Treasury Officer of Accounts, were in attendance.

Witnesses: Professor Madeleine Atkins, Chief Executive, Higher Education Funding Council for England; Rod Bristow, President, UK and Core Markets, Pearson; Martin Donnelly, Permanent Secretary, Department for Business, Innovation and Skills; and Mick Lavery, Chief Executive, Student Loans Company, gave evidence.

Q1 Chair: Welcome, thank you very much indeed for coming. I have a copy of an e-mail, Mr Donnelly, which was sent out from your Department, I think. Apparently, you were asking private providers to help to prepare the Government for a key hearing on private higher education. It was an urgent request for information from BIS on widening access and alternative providers. BIS has a Public Accounts Committee hearing next week looking at alternative providers. It is seeking evidence that supports the contribution alternative providers are making to widening access and they wanted the information—I think you gave people only a day. Any good news for us?

Martin Donnelly: I visited several alternative providers as part of the preparation for this hearing and I know that many of my colleagues do as well. I was struck by the diversity of the sector and the range of things that it does. I am sure you will want to discuss quite a lot of them, as we go through.

Q2 Chair: Any good news for us? Did they come back with good news for you?

Martin Donnelly: Well, yes. Briefly, I went to one of the music specialised providers, which does an exceptionally good job preparing people for the UK music industry and has had successes from Sugababes to various groups I have never heard of but which have been very successful.

Q3 Chair: Do they receive public money?

Martin Donnelly: The students receive money. The Greenwich School of Management is clearly accessing a group of relatively disadvantaged students who have not always been well served by the system in the past and were very aware of some of the issues that the report describes. I found that encouraging.

Q4 Stephen Phillips: Mr Donnelly, if your visits were so successful, why did this e-mail need to be sent out from the Department very recently on 14 December?

Martin Donnelly: I cannot comment on individual e-mails that I do not know about, but I certainly expect the Department and our teams to gather as much relevant information as possible. One of the challenges in this area is getting hold of assessable and accurate information that we can compare, particularly with the HEFCE-funded sector. That is one of the challenges that we have been working on.

Q5 Stephen Phillips: Can we try to avoid acronyms, please?

Martin Donnelly: That is the Higher Education Funding Council for England.

Q6 Chair: That is your job, Mr Donnelly. I have to say that this is one of the most shocking Reports that I have come across, and we will come back to it before the general election. What was most depressing was that it reminded me a lot of the lessons we ought to have learned—or that you should have learned—from individual learning accounts, but have failed to learn. I want to start with a very general question. How much taxpayers' money has gone to a purpose that was not intended by Parliament in the way that you and your Department have run this scheme? How much in total?

Martin Donnelly: I find that a difficult question to answer, because we need to define what we mean. We are running a funding system for students.

Q7 Chair: It is quite simple. This money was supposed to help students in private colleges to get a higher education qualification. For all sorts of reasons which we will go into—both Chris and I have questions on a lot of aspects of this—that has not happened all too often. How much public money, taxpayers' money and our money has gone into a purpose that was not intended?

Martin Donnelly: We need to be clear what we are talking about here. If you are talking about students who have dropped out having received funding—

Q8 Chair: No, in totality. Some are students who have dropped out. Some are students who never came. Some are students who came and there was never a qualification for them to take. There are all sorts of aspects. I would think that you ought to know, as the accounting officer, how much public money we have lost in totality because it was not used for the purpose for which it was intended.

Martin Donnelly: It is difficult to add up those different categories.

Q9 Chair: Why? That is your job. Why is it difficult to add up?

Martin Donnelly: We do know that there have been issues of incorrect or fraudulent applications to the SLC by some EU students without a right of residence. We have a precise figure for that.

Q10 Chair: Mr Donnelly, why have you not added it up? This is a scandal; it is a complete scandal. It has been around for a few months now, certainly since I first read about it and people came to talk to me about it. I understand that there have been warnings in the Department—Peter Gray can help with this—since 2010 of the potential leaks that could happen in the way you set this scheme up. HEFCE, I gather, warned in 2010. Am I right?

Professor Atkins: We gave advice to the Minister, yes.

Q11 Chair: The unions, I understand—this is a responsible group of unions—gave you warnings. I have copies of their letters from about 2010. I do not know who else warned you. You went ahead and a lot of public money—taxpayers’ money—has gone in all sorts of ways to institutions and individuals, but it has gone to a purpose that was not intended. I think that the public have a right to know how much. For you to tell me that it is too difficult to calculate is simply not acceptable.

Mick Laverty: Chair, if I may, perhaps I could help with an answer to that question. I can provide a figure at a global level. The Student Loans Company calculates its error rate every year, and that figure is audited by the National Audit Office. The error rate for student loan payments last year, 2013-14, was 0.43%. The year before, 2012-13, it was 1.29%.

Chair: That is only one aspect of it.

Q12 Stephen Phillips: This is across the entire loan book though, Mr Laverty, isn’t it?

Mick Laverty: This is across loan payments.

Q13 Stephen Phillips: So in fact, you cannot help. It is a very simple question to Mr Donnelly, who is the Permanent Secretary in the Department. As is apparent from this Report, a large quantity of taxpayer money has been misused. It has not been used for the purposes for which either the Government or Parliament intended it. Do you not find it extraordinary that you come to this Committee today and you cannot tell us how large that sum is?

Martin Donnelly: I think that we have to be clear what we are talking about.

Q14 Stephen Phillips: Answer my question please.

Martin Donnelly: I cannot answer it until I am clearer about what we are talking about. If, for example, we are talking about people who have failed to finish a course or have dropped out, aspects of the funding of that—

Chair: Add it all up. It is quite simple. One group is the people who never arrived, another is the colleges that never provided, and a third is the people who did not enter a qualification. What have I forgotten?

Chris Heaton-Harris: People who did not have the language qualifications to do the course.

Chair: There are all sorts of things. You sit down, ruddy well do an exercise—this is public money—and tot it up.

Mr Bacon: Have you done that for each of those categories?

Stephen Phillips: And if not, why not?

Q15 Mr Bacon: Have you done that exercise for each of those categories?

Martin Donnelly: We should probably discuss each of the categories.

Q16 Mr Bacon: Please, Mr Donnelly because I would like to know. The exercise that the Chair describes will be of varying degrees of ease or difficulty depending on the categories—I appreciate that. My question was whether you have done that exercise—trying to ascribe a number to the people who did not have the required language qualification, and to the people who started a course but did not finish it and so on. Have you done that?

Martin Donnelly: We need to take those one by one because they are separate.

Q17 Mr Bacon: No. Right now, for the series of categories that the Chair went through, I am asking whether you have gone through each of those categories and tried to ascribe a number to each of them.

Martin Donnelly: No, because the categories do not work like that.

Q18 Mr Bacon: Did you say no?

Martin Donnelly: No, because the categories do not work in that way.

Stephen Hammond: If you can describe the categories but not the totality, you can give us the number for each category and that will be the totality so we will know what the totality is in the end. Perhaps you could go through the categories and we will tot it up as you go.

Chair: I accept that. We will try that but I do not think we are going to get where we want to.

Stephen Hammond: It was worth a try.

Chair: We will want you back with a much more detailed assessment of the moneys lost to the public purse.

Q19 Stephen Phillips: If I may say so, Chair, I think it goes beyond that. I find it extraordinary, Mr Donnelly, that you come to this Committee today, given the nature of the investigation by the NAO and the purposes of this hearing, and you cannot tell us as, indeed, you are apparently unable to tell your Secretary of State, how much taxpayer money has been mis-spent. You should write to us in short order, even if you have to make estimations within some of these categories, and give us a number.

Martin Donnelly: I hope that the definition of “mis-spent” will become clearer as we are discussing it. The point that I am trying to make is that it is not straightforward. There is not, for example, a category of people who do not have language requirements. Language—I speak under control here—is one of the reasonable expectations that a student can complete the course. This is not a binary issue; language will feed into the question of whether people are capable of completing their course.

Q20 Chair: Listen, you’ve got to do some work around the issue if people are cheating. There is no way that somebody who cannot speak English can do a higher education degree—that is absolutely simple—which is why level 4, 5 or whatever is the minimum level that should be expected. You know that. You’ve got to go away and do some detailed work. You are the accounting officer, Mr Donnelly; you are accountable for this money not being spent to the purpose that was intended. Because we had the experience of the individual learning accounts, which some of us around the table remember, it is appalling that you allowed all this policy to start without putting the right checks and balances in place. That is what is so shocking. It is just awful. You will have to come back to us; write to us and come back to see us.

Let us go through categories. I don’t know where to start. Paragraph 3.13 on page 22 of the NAO Report states that 20% of students in alternative provider colleges were not registered with a qualification for 2012-13. Those students were in a course, having presumably had some fees paid to the colleges. Some 20% of 53,000 students were in a college course doing something, getting the grant, and maybe getting the loans—both the maintenance and whatever it is. The college was getting paid and the students were not on a course.

Martin Donnelly: They were not, at that stage, registered on the course. That is an issue that we have been pursuing with Edexcel.

Q21 Chair: They cheating. Somebody or other was cheating. They were in a college, having got public money, both to the college—yes? You are nodding. The college would have got money?

Rod Bristow: The college would, yes.

Chair: The student would have got money—yes? And they were not registered on a qualification.

Q22 Meg Hillier: Without straying into policy, if any student goes to a public institution there are checks and balances and data that are supposed to be collected. There is no requirement on that in the private sector, so, to set aside policy for a moment, in terms of financial management, how could the Department allow that to happen—because there is no control?

Martin Donnelly: There are controls, and they have been progressively strengthened, but if I can deal with the specific point, first, of the 20%, this is an issue that we pursued, because most of the people involved, though not all of them, were actually on the HND and HNC courses supervised by Edexcel. The question was whether they were not following the dates for actually signing up or whether there was anything else going on. Rod, I will ask you to comment, but we have no evidence of any fraud in this area, as I understand it.

Rod Bristow: So the situation is that we were made aware by the National Audit Office that there was a gap between the enrolments and the registrations with us. Of course, we do not have direct visibility into the—

Q23 Mr Bacon: Can you define for us—I am sorry to stop you, but what is the difference between an enrolment and a registration? In common parlance they seem like the same thing.

Rod Bristow: I am sorry. The student will enrol at the college and having enrolled at the college the college will then register the students with us. So the student enrolling with the college and their registration with us, as the awarding body, are two separate things.

Q24 Mr Bacon: And that latter part—what you call the registration—is done by the college on behalf of the student?

Rod Bristow: That is correct—with us, directly, so we understand, as the awarding body, the students that have been registered, but we do not see the enrolment data. We were made aware of this disconnect between the enrolment data and the registration data that we have by the NAO, and—

Q25 Mr Bacon: Do colleges sometimes enrol students because they know that that is the trigger for getting the money, and then not register them for conscious reasons? Rather than, as it were, they have not got round to it yet, they decide consciously not to register a student because if they are not registered they can then say a higher percentage of their registered students have achieved x level in examinations. Is that a possible reason?

Rod Bristow: Of course it is possible, but I think the best way to answer the question is that as soon as we were made aware of the disconnect between those two pieces of data—

Q26 Austin Mitchell: How long ago was that?

Rod Bristow: During the summer.

Q27 Austin Mitchell: But how long had you been doing it until you were made aware of this disconnect?

Rod Bristow: We were not doing it. We were registering our own students. Our role is to register the students on our qualification. We are not responsible for the enrolments in—

Chair: Who should have known this?

Q28 Austin Mitchell: How long had you been going on before the NAO made you aware of the disconnect?

Rod Bristow: We register students. We have always registered students.

Q29 Chair: The answer to that has to be you don't know.

Rod Bristow: I do not know how long the gap had been there for, no. I do not know the answer to that, but I can say that we have written to all of the colleges where the gap between the enrolment date and the registration data exists.

Q30 Chair: Mr Donnelly, why didn't you know?

Martin Donnelly: When we found out that—

Q31 Chair: Why didn't you know? You found out because the NAO told you.

Martin Donnelly: We did have concerns about this area and we were in touch with Edexcel and we have asked them to tighten their processes.

Q32 Mr Bacon: Hang on, you are blaming Edexcel now. Mr Bristow has given a fairly—you are Edexcel, aren't you, Mr Bristow?

Rod Bristow: Yes, I am.

Q33 Mr Bacon: Mr Bristow has given a fairly vanilla and straightforward account of his role in this, which is when the college says, "Please register this student," Mr Bristow does so. It sounded to me in your last sentence like you were trying to blame Edexcel. What I want to know is why you are spending public money without people being registered.

Martin Donnelly: The position was—and I think this is correct, Rod—that Edexcel expected people to be registered within a 30-day period and it turned out that this was not always happening. Now some alternative providers did not have to do it—if they were doing their own degrees or they were validated by another university—but in terms of HND and HNC, they did have to do it with Edexcel.

Stephen Phillips: Hold on one moment. Can I ask the NAO, does your conclusion in paragraph 3.13 take into account late registrations as well? Is it simply that there is a 20% difference looking at a 30-day period after enrolment, or is there a 20% difference, period? That would wholly undermine Mr Donnelly's answer.

Peter Gray: No, this is about the aggregate figures.

Stephen Phillips: So it is the total?

Peter Gray: It is the total.

Q34 Mr Bacon: Okay, back to my question, Mr Donnelly, because you answered a different question that I didn't ask. My question is: why were you spending public money on student support for people who were not registered?

Martin Donnelly: Students were, as far as we can ascertain, registered eventually and—

Q35 Mr Bacon: Hang on. Mr Donnelly, that is directly contrary to what paragraph 3.13 says. I will read it out for you. It says that "the total number of registrations is 2,963 (20%) lower than the number of students accessing student support at the year-end." My question was: why were you spending public money on student support for people who were not registered? Have another go at answering the question.

Martin Donnelly: The key words there are "at the year-end". The question is: how many of these students were actually registered subsequent to the year-end? They do begin courses at various points during the year, and the problem we have is that not everyone was being registered in time. We have now changed that system—

Q36 Mr Bacon: Surely an effective piece of design—a good piece of design—would be that until they show that they are registered, you don't give them their student support. You have a gateway. The question is really quite binary: are you registered—yes or no? If the answer is no, you cannot get student support; if it's yes, you can access student support. What is wrong with that gateway?

Martin Donnelly: There is nothing wrong with it—

Q37 Mr Bacon: Well why didn't you do that then?

Martin Donnelly: And that is what we now do.

Q38 Mr Bacon: Why didn't you do it in the first place?

Martin Donnelly: It had never actually been an issue in the past. There is no evidence that either we or the NAO have discovered that there is any fraud in this area.

Q39 Chair: Can I ask HEFCE: what is the system you use? Could this happen in a HEFCE-run—you don't run anything. Could it happen in the HEFCE family? Could it happen in HEFCE?

Professor Atkins: Students are enrolled in universities by the institution concerned, not by us; we don't give money to individual students.

Q40 Chair: Yes, which is what happened with the private provider, but could you have a student enrolled without having a course or qualification?

Professor Atkins: The student would be enrolled on a course at the registration point.

Q41 Chair: So how do you manage it that every student enrolled in a university is working towards a qualification, whereas in a private provider 20% aren't? What do you do that they are not doing?

Professor Atkins: It is nothing that we do as HEFCE, but universities have in place their processes that check students. It would be conceivable, I suppose, that where universities are using HND from Pearson Edexcel, that might have occurred, but I am not aware of anything and I am not sure that any evidence has been brought to our attention.

Q42 Mr Bacon: Mr Donnelly, you said, "That is what we now do." On what date did you start doing that which you now do?

Martin Donnelly: I will give you a more detailed answer first to your other question and come back to that one. We did first learn about this issue when we were investigating the ICE Academy in November of 2013. That is no longer designated, and we did pick up on this issue. We also checked whether in fact there had been any fraudulent use of it, and I don't think we found any in that case. We have been pursuing it since then. Edexcel have written and tightened their processes, and we have made it clear that no payments will be made from January unless there is explicit registration.

Q43 Mr Bacon: Hang on. So it hasn't started yet? The gateway that I described—

Martin Donnelly: It is starting for the next—

Q44 Mr Bacon: It is starting for January 2015?

Martin Donnelly: That's correct.

Q45 Mr Bacon: So even now, the system, the gateway, that I just described is not yet in place and active. That's right, isn't it?

Martin Donnelly: Edexcel have been policing the 30-day rule more rigorously, I think it is fair to say.

Q46 Stephen Phillips: Hold on a moment. Mr Donnelly, we picked up on this issue when you were investigating one of the providers that is no longer registered. When was that?

Martin Donnelly: That was November 2013.

Q47 Stephen Phillips: Right. So no change between November 2013 and January 2015?

Martin Donnelly: Yes. We were in touch with Edexcel about tightening up their processes.

Q48 Stephen Phillips: For goodness' sake, Mr Donnelly, a 13-month period that has yet to come to an end, during which, if one takes the NAO conclusion at face value, as many as 20% of students have been in receipt of public money to which they were not entitled!

Martin Donnelly: There is no evidence that anyone did not subsequently register. It was a question of timing, and immediately after we wrote to Pearson's, Pearson's wrote to all alternative providers, over a year ago, in November 2013, to reinforce the 30-day rule.

Chair: Right. Peter and Amyas want to come in, and then I am going to Stephen.

Sir Amyas Morse: I just want to be clear about something. We have presented very straightforward information—this is the investigation. We simply present the data, which here shows that there was an overhang at the year end. It would be really instructive to see a reconciliation that showed what happened to that overrun, because then we could speak with confidence about what happened. I do not think that that reconciliation is currently to hand. If we had that reconciliation, we would all know whether anyone had received any money that they should not have, or if it was simply a timing difference, which I accept must be a significant part of it. My recommendation is that it would be great to have that, because we would then know for certain what had happened to public money. We are not presenting that difference as being more conclusive than that, but I hope that you agree that it must be fully understood.

Rod Bristow: That is absolutely what must happen next. We need to take our latest registration data, as well as the accounts we have received from colleges about why this gap exists, and sit down and reconcile that to verify whether the data now tells us that there has or has not been a fraud.

Q49 Chair: Chris has usefully directed me to the information on the ICE Academy in figure 12 of the Report, which is an example of what we could be talking about. It says that the Student Loans Company "informed us that £1.5 million in tuition fees and £5.4 million in maintenance loans was overpaid." That is, give or take, £7 million—£7 million. It goes on: "To date, £35,000 of maintenance support has been recovered".

Stephen Phillips: And that is for one institution that is no longer registered.

Chair: This is scandalous, Mr Donnelly.

Q50 Stephen Phillips: The truth of the matter is, Mr Donnelly, that you have had 13 months within which to investigate this question. You appear to have done it only in relation to one institution. The Department does not appear to have said, “Hold on, there might be a much broader problem here,” and gone and looked at whether or not there was a much more significant fraud that has cost the taxpayers tens of millions of pounds, rather than £7 million.

Martin Donnelly: The issue at ICE was different. They were submitting attendance confirmations for students who were studying at undesignated campuses, which I absolutely agree is a serious issue and an extremely serious issue in terms of the misuse of public funds, and we took immediate action on that.

Q51 Stephen Phillips: Okay, I understand that. Let us now go back to my question. You have had this 13-month period; given the 20% disparity between enrolment and registration, what investigations have been conducted to see whether or not there is a significant amount of fraud across the system? What has the Department done?

Martin Donnelly: We have, as I say, ensured with Edexcel that the system was tightened.

Q52 Chair: No, you are going to do that from January.

Martin Donnelly: But Edexcel also wrote to every provider more than a year ago to remind them of the 30-day limit, and I think that, from January 2014, you made clear that any enrolments that were longer than 30 days would require a special approval process. So we have done that, but I think that you are right—

Q53 Stephen Phillips: You are now talking about things going forward, starting from January of next year. I asked you a different question. Given that the problem first revealed itself in the context of your investigations into ICE, which you de-registered for another purpose, and that that was apparently in November 2013, what has the Department done in the intervening 13 months, given that it was aware of the problem, to investigate whether or not the problem is actually one of fraud across the system that has led to 20% of this budget of public money being wasted? What has been done during that 13-month period?

Martin Donnelly: As I say, we have strengthened the designation system. We have not found any evidence of actual fraud—

Q54 Stephen Phillips: What investigation have you conducted in order to draw that conclusion and make that finding?

Martin Donnelly: We have a series of sets of information on colleges, including from individuals in them, and as far as I know, I am not aware of any suggestion of actual fraud in this particular area.

Q55 Stephen Phillips: Mr Donnelly, I am going to ask my question again: what investigations has the Department conducted in the intervening 13 months to check that widespread fraud is not going on here?

Martin Donnelly: We have not focused on this specific area in that time because we did not have evidence to do so.

Q56 Stephen Phillips: Answer: none. Correct?

Martin Donnelly: Not beyond what we have discussed.

Q57 Stephen Phillips: None.

Martin Donnelly: Because we did not have evidence of fraud.

Chair: Can I tell you my crude calculation, for what it's worth? I have probably taken the wrong basis, but 20% of 53,000 could be £140 million, at the levels we are talking about.

Stephen Phillips: Even if it is 10% of £140 million—

Q58 Stephen Hammond: I was going to ask a broadly similar question to that of the Comptroller and Auditor General. In your answer to him, you did not address his point about the time delay and when that time delay might be sorted out. I have a number of questions that will come up later, but I would like to know about the time delay. If it really is, as you are trying to suggest, a time delay between registration and enrolment, what investigation has been done into that?

Martin Donnelly: I'm sorry, but I am not sure I fully understand your point.

Q59 Stephen Hammond: You suggested in one of your answers earlier on that some of this might just be a timing delay between pick-up. What investigation have you done to substantiate that point? That was the point that the Comptroller and Auditor General was broadly asking you about. He asked you a couple of other questions about amounts and other things, but I am asking you about the time delay. Can you really have worked out what the time delay is? What analysis have you done to show that that might be a substantial explanation for the problem?

Martin Donnelly: No, we have not done any specific work on that beyond asking Edexcel to look into it, and now seeking to do what the Comptroller and Auditor General has reminded us needs to be done, which is to reconcile the data, but I emphasise that we have had no evidence in this area of any actual—

Q60 Stephen Hammond: You cannot possibly say that there is not any evidence at this stage because you have not done the investigation. Without being unbelievably unkind to you in this

period of Christmas good will, you cannot possibly make that statement without having done the investigation.

Martin Donnelly: It is the case that in other areas we have had individuals in colleges come to us and say, “We are not happy with this, that or the other aspect of process,” and we have used that to undertake fraud and other investigations.

Q61 Stephen Hammond: So if you knew that then, why have you not done that more quickly in this process?

Martin Donnelly: Because we did not have any evidence in this area that there was any fraud going on. That is the short answer. I accept that it is something that we need to do.

Q62 Chris Heaton-Harris: I’m afraid my point is related. As the Chair pointed out at the beginning, when we started to enact this policy, you had a whole host of flags being waved in front of you as a Department. Then, as graphs in this Report show, you had an explosion in student figures for certain colleges and, as the appendices show, interesting adverts trying to attract the sorts of student that you were not necessarily expecting to attract into these courses on to them. Also, as figure 12 shows, you have had a number of investigations into providers incorrectly recording student courses. There have been one or two flags for you. Why didn’t you see them? You knew this was a risky policy at the start.

Martin Donnelly: Yes. There are several points I would like to make, because it is a good question, but a rather complicated one. Ministers were clear that they wanted to offer the alternative provider sector space in which to grow and there was funding available to do that. In order to do that, we had to give that sector space, to not just develop the very specialised courses—music, dance or whatever—and the traditional courses such as law and accountancy, but to move into wider areas including lower-than-degree provision where there are issues about the age of students, their socio-economic status—

Q63 Chair: Can you answer the question? I am giving you a long leeway, but we have a lot to go through. Just answer Chris’s question, please.

Martin Donnelly: So the first point is that we had to allow this to take place. We did not know what was going to happen. What we did do—and we did further measures—was to tighten the, frankly, relatively loose processes around alternative providers from 2011 onwards. We used HEFCE in an advisory role to help us pull together information, we tightened information on financial sustainability, management and governance of alternative providers, and we had a tougher designation process from 2012 for courses, including a successful QAA—quality assurance—review. We were taking a lot of steps to manage that process.

The increase in student numbers was, frankly, much greater than we had expected. We did not know what to expect, but it was greater. When it became clear that it was likely to get to a level that was financially difficult to sustain, we took further measures, including asking the top 23 recruiters to freeze their recruitment and making it clear that there would be student number controls in the sector this year, based on 2012-13. We were concerned to maintain a cap on the overall numbers while improving the control processes around them, without—there was a balance

here—trying to over-regulate the sector, which was designed to have space for innovation and to serve students.

Mr Bacon: God, this sounds so like individual learning accounts, which came out in 2001 and were specifically about leaving space for innovation. The numbers were much higher than anticipated. The DFE, which was then responsible for that, saw the very high growth in numbers and thought that it was evidence of success. They were surprised, but they thought it was evidence of success, rather than evidence of the fact that there had been fraud.

Chair: Chris, may I draw out something from yours, or do you want to keep going?

Q64 Chris Heaton-Harris: I have lots detailed questions on the Report, but there seems to be a lack of capability in identifying risk within your Department. That is what comes out of this Report—that there is an amazingly laissez-faire, hands-off attitude. I just wonder whether you really do feel that you have the capability to identify risk in this area going forward.

Martin Donnelly: That is a fair challenge. We progressively responded to risks as we saw them developing, and you can rightly challenge us as to whether we should have seen those earlier. In hindsight, I am not sure that we did everything perfectly, but we are talking about 5% of the total number of students in a very wide delivery of options for students, and many of these courses were providing for rather marginal students who did not previously have access to higher education, and that was a good thing.

Chris Heaton-Harris: Romanians and Bulgarians.

Q65 Chair: There are three things here that I draw from Chris. You get this massive expansion, and we are told in an agreed Report that there are five providers that are responsible for 50% of the expansion. Anyone looking at that stat will see that it is a complete red flag. It is at the bottom of page 8: “St Patrick’s International College; London School of Business & Finance”—I think they are part of the same thing—“Greenwich School of Management; British Institute of Technology & E-commerce; and UK College of Business & Computing.” You get that, and you then move over the figure 6 and—surprise, surprise!—the same ruddy colleges appear again on the list of providers with ineligible students. St Patrick’s International College is top of the list, but they are all there, including London School of Business & Finance. Greenwich School of Management is perhaps not in there, but they all reappear on that list, which is another red flag. You then move to a third thing with the drop-out rate, and you find the same ruddy colleges again: London School of Science & Technology and London School of Business & Finance. It is the same ones again and again. You allowed this to happen, and you allowed public money to be spent without understanding it. That really does leave me gobsmacked, because there are so many indicators, and you ignored the ruddy lot of them.

Martin Donnelly: No, I don’t think that is fair. It was not necessarily the case that rapid growth in a provider was a bad thing. One of those you mentioned, the Greenwich School of Management, was making a perfectly reasonable point that, by growing, they were able to manage their overheads more effectively and provide a more cost-effective service. That is not, of course, the only explanation.

Q66 Chair: You accepted that, did you? Did you look at all the figures?

Q67 Stephen Phillips: Was it the sort of cost-effective service that permitted them to have, as of May 2014, 160 ineligible applicants funded by taxpayers' money?

Martin Donnelly: I am not suggesting that any single college did not have issues. I am saying that we were looking at them in terms of the structures and the systems that we put in place and progressively tightened.

Q68 Chair: Why don't you accept what I said? Why don't you accept that growing at that rate should have been a red flag; the ineligible students were a second red flag; and the 20%-plus drop-out rate was a third red flag? Why do you not accept that those were red flags about which, if you had been doing the sort of risk analysis that Chris is talking about, you would have done something?

Martin Donnelly: Well, they were matters of concern. I am merely trying to avoid saying that they should automatically have been taken as a reason for seeking not to designate. What we had to do was look at those colleges very closely.

Chair: This is public money, Mr Donnelly.

Q69 Mr Bacon: You have already said to Mr Phillips that you did not do an investigation in those 13 months. If they were matters of concern, why did you not do an investigation?

Martin Donnelly: There were different investigations into various of these colleges. That was merely on the question of late registration of students.

Q70 Stephen Phillips: Well, identify for us the other investigations that you did conduct as a result of these red flags, Mr Donnelly.

Martin Donnelly: On the London School of Science & Technology, for example, we suspended all fee payments when we were concerned—

Q71 Stephen Phillips: I am sorry, we are at cross-purposes. I am not asking you about individual institutions; I am asking you about the problems that we now know from the NAO Report were inherent across the sector. What investigations did you do in relation to the problems that had been identified by the NAO in its key findings?

Martin Donnelly: Shall we take the issue of the drop-out rates?

Stephen Phillips: Yes, go on—the drop-out rates.

Martin Donnelly: This does fall into the “red flag” area, but it requires us, as we are trying to do, to look at what lies underneath it. The truth is that when you take students who are over 21, they tend to drop out—

Q72 Stephen Phillips: Mr Donnelly, this is going to be a very long hearing lasting into the early hours if you are not going to answer the question. The question I am asking you—you can answer it specifically by reference to each of the matters identified by the NAO—is what investigation was conducted within BIS in relation to the drop-out rates at these nine providers that were responsible for 20% of the drop-outs? What investigation was conducted in the Department? It is a very simple question.

Martin Donnelly: There wasn't an investigation in the Department—

Stephen Phillips: Right, the answer is—

Martin Donnelly: If I may continue, I think you will find it helpful.

Stephen Phillips: Yes, go on.

Martin Donnelly: We saw this as part of the work that the QAA was doing in terms of looking at the quality of providers, but as is also true in the HEFCE-funded sector, drop-out rates themselves have to be—

Q73 Chair: How does this get us to what investigation you were doing?

Martin Donnelly: I am trying to make the point that drop-out rates are one signal that have to be looked at against the background of the student body—

Chair: You clearly did not relate one signal to the other.

Q74 Stephen Phillips: Let us take another one then: EU students at some alternative providers were claiming or attempting to claim student support, and in fact, we know, because the SLC has told us, that it was at least £5.4 million. What investigation was conducted within BIS in relation to that issue across the sector?

Martin Donnelly: On EU students seeking support, as soon as we had information that—

Q75 Stephen Phillips: No, Mr Donnelly. What investigation was conducted within BIS in relation to the issue that I have just identified?

Martin Donnelly: Of EU students seeking—

Q76 Stephen Phillips: Yes, of EU students receiving money that they were not entitled to.

Martin Donnelly: We immediately contacted the SLC, which is responsible for checking whether students are eligible, and it took very rapid action, in about three weeks.

Mick Lavery: We were instructed by BIS to suspend payments—

Q77 Stephen Phillips: This is October 2014, when Mr Donnelly says, “immediately”.

Mick Lavery: It was September 2013 when we were instructed to suspend all payments to—

Q78 Chair: Can I ask you about EU students, because I am quite interested? EU students are the least likely of everyone to pay back the money you lend them, aren’t they?

Mick Lavery: That is correct.

Chair: And what money comes back? What is the percentage that comes back? My recollection is about 15% or 20%, but that is off the top of my head. If EU students take a loan or get support, because they are so difficult to trace, only about 15% or 20% of that comes back—that is my recollection.

Mick Lavery: I have the figures here. Your recollection is correct; it is more difficult to get money back from EU students. EU students overseas represent something like 11% of the student population—sorry, in terms of loans value outstanding, it is 12% of all loans outstanding. In terms of arrears, the figure is 26% of all outstanding arrears—

Q79 Chair: So they are 12% of outstanding, but 26% of arrears.

Mick Lavery: If you take the population of UK and EU overseas students—both from the EU and the UK—by numbers, the loans outstanding on the EU overseas is £145 million, and for the total population, it is £1.245 billion, so that is 12%. The number of arrears outstanding: 26% of the total overseas is EU overseas, the remainder being UK overseas. The number of borrowers: 21% of the total overseas is EU overseas.

Q80 Chair: Okay, and am I right in thinking that 40% of the students going to these private alternative providers are from the EU?

Mick Lavery: I think that’s correct.

Chair: That’s correct?

Stephen Phillips: Sorry, what was the percentage?

Chair: Forty per cent. That’s interesting. You are talking about how much money is being wasted. Some 40% of the students going to these private colleges are from the EU; they get money, and their propensity to pay it back is much lower.

Q81 Stephen Phillips: It’s worse than that, isn’t it? Paragraph 2.11 of the NAO Report says that the Department became aware that “at some providers more than 80% of new students were of Romanian or Bulgarian origin...multiple applications were made from individual households...applications were submitted after the course start dates; and applications” were “submitted in bulk, with up to 50 applications per day from the same internet location.” When, Mr

Donnelly—this is a very simple question, and if you can't answer it, we will draw our own conclusions—did the Department become aware of those features of the way in which the policy was operating?

Martin Donnelly: We got this information from the SLC, who collect the actual applications. That was, I think, in the spring.

Q82 Stephen Phillips: In the spring of when?

Mick Lavery: 2013.

Q83 Stephen Phillips: What was done as a result of that information being provided?

Mick Lavery: We noticed some irregular patterns in the spring of 2013—the high number of Romanian students at various institutions. We did quite a large sampling exercise that bore out the fact that 85% of them could not prove residency. At the same time, the DWP, in parallel, were doing a similar sample check of the number of EU A2 students who could prove residency for national insurance purposes.

Stephen Phillips: Well done the SLC. So you got straight on to it once that information about ineligible students became available.

Stephen Hammond: What did you actually do?

Q84 Stephen Phillips: As Mr Hammond says, what did you actually do?

Mick Lavery: We discussed it with the Department, who asked us to immediately suspend the payments.

Chair: How much did you lose on that little number?

Q85 Mr Bacon: Could you just repeat your previous sentence, because I didn't hear it? Did you say you stopped payments?

Mick Lavery: All payments were suspended. BIS instructed us to suspend all payments in September.

Q86 Chair: How much did you lose?

Mick Lavery: The figure moves all the time, Chairman, as students—

Stephen Phillips: Roughly.

Mick Lavery: At the moment, it is £3.84 million.

Q87 Stephen Phillips: Of public money, which has just had to be written off as a result of what is, essentially, fraud.

Mick Lavery: No, it is £3.84 million of public money that we are still pursuing.

Q88 Stephen Phillips: Well, help us with that, Mr Lavery. How are you going to recover that money?

Mick Lavery: Well, £442,000 will automatically be recovered from the next round of payments to these alternative providers. The balance will be recovered—or we will try and recover the balance—from the individuals concerned who have had maintenance support.

Q89 Stephen Phillips: So you are going to be sending investigators off to Romania and Bulgaria, are you?

Mick Lavery: We will be using our overseas debt collection agencies, as we do for all overseas borrowers.

Q90 Mr Bacon: When you say the payments will be automatically recovered, do you mean you are deducting the amounts from subsequent payments?

Mick Lavery: Yes. To date we have—

Q91 Mr Bacon: So you are not actually getting cash back. That's right, isn't it?

Mick Lavery: It amounts to the same, I believe.

Q92 Mr Bacon: No, it doesn't, actually. There is a difference between paying money out, not paying money out and getting cash in—they are all different things. You are no longer paying out money that you would otherwise have been paying, so you are assuming that, in the absence of the money the provider would otherwise have been getting, they are, as it were, going to provide a free service for what are presumably legitimate students. Is that right?

Mick Lavery: We've collected £951,000 to date from the £3.84 million that is currently outstanding. Some £751,000 has been clawed back from future payments to alternative suppliers.

Mr Bacon: I would really be grateful if you could just answer my question.

Mick Lavery: Sorry, could you repeat it?

Q93 Mr Bacon: You said that you are stopping some payments to these alternative providers and that the payments that are due will be clawed back from future payments that you would otherwise have made to those providers. Is that right?

Mick Lavery: Correct.

Q94 Mr Bacon: Okay. So my question is this: the future payments that you would otherwise have made to those providers are, you assume, legitimate payments for legitimate students. That is correct, isn't it?

Mick Lavery: That's correct.

Mr Bacon: Okay, thank you. That was my question.

Sir Amyas Morse: There are two different elements, aren't there?

Peter Gray: In respect of these ineligible students, there is the tuition fee element that would have been paid to those providers. As I understand it, the Student Loans Company is reclaiming those moneys off those providers. There is a remaining element, the maintenance element, which would have been paid to the student.

Chair: That is the bigger element.

Peter Gray: Action has to be taken to pursue those students for that money.

Sir Amyas Morse: You cannot take that bit back from the provider, obviously.

Q95 Chair: What is this £3.8 million—is that just the Romanian scam?

Mick Lavery: This is the EU A2 exercise, which, at the time of the Report, was 992 students owing £5.4 million—

Q96 Chair: Is that the 5,000?

Mick Lavery: The £5.4 million in the Report and in the headline key finding—

Q97 Chair: So that is a finite period.

Mick Lavery: It reduces, literally on a weekly basis as more of those students provide evidence that they are eligible.

Q98 Chair: So does the Romanian scam go into that?

Mick Lavery: Yes. As we sit here at the moment, 832 students from the original 1,333 still have not provided evidence of eligibility. They owe a remaining £3.84 million. As the NAO quite rightly say, we are clawing back some from the providers themselves and the remainder, the bigger part, from the individual students in the normal way that we do collections: by chasing people using debt collection agencies.

Q99 Chair: And these are just people who did not meet the eligibility criteria.

Mick Lavery: There are two possible scenarios. There are people who applied for a student loan and chose not to carry on with their studies who need to repay us the money. Or, if they applied for a student loan but could not produce evidence on their eligibility, that is fraudulent and they need to pay us the money.

Chair: You see, Mr Donnelly, what is so shocking is that this is another element—the second or third element—and the idea that BIS and you, the accounting officer, have not made an attempt to bring this together in a coherent whole so that the public have some idea of how much money has been lost is totally not on. This is public money and you have got to account for it.

Q100 Austin Mitchell: It baffles me that the private sector is not subject to the same regulations and requirement to be open and register its qualifications as the public sector. Is the assumption that the public sector is full of racketeers and it will rob the students while the private sector is virtuous and we want to encourage 100 colleges to blossom? Why was it not regulated? Was there a policy to encourage it to blossom?

Martin Donnelly: That is a very reasonable question. The short answer is: originally, legislation was envisaged which would have put a structure around this, but the Government chose not to legislate at that point. I think they wanted in part to see how things would develop. In my view as an accounting officer, it would be very helpful to have such legislation as early as possible in the new Parliament to set out a structure which allowed for proportionate risk-based analysis across all of the sector—the APs are a very diverse group and, actually, HEFCE-supervised institutions are increasingly as well—so that we do have that in place. We are moving towards it in terms of quality assurance—

Chair: Mr Donnelly, this is outrageous. This is such an abrogation of duty.

Q101 Mr Jackson: It is a lot of old flannel, frankly.

Martin Donnelly: No it is not; it is very clear.

Q102 Mr Jackson: It is a lot of old flannel—what is “proportionate risk-based analysis”?

Chair: This is after the horse has bolted.

Mr Jackson: You should have been pulling your finger out a bit earlier than this. Everyone else in alternative providers knew that there was a problem with fraud with these particular people, but you did not, so do not give us a lot of old flannel and gobbledegook because I am not as generous and charitable, as a Christian gentleman coming up to Christmas, as Mr Hammond is. So speak clearly, please.

Martin Donnelly: Can I just say—actually, this is a serious point on which I would like to ask HEFCE to comment—I do agree about the appalling fraud from some Romanians and others. That was shocking. That was a loss of public money. As soon as it happened, we moved very quickly to deal with it and to check all the other EU students, which we did.

Q103 Mr Burrowes: It is not just the fraud, but the incompetence of not even requiring proof of residency that is shocking for the taxpayer. Even when suspicions were raised about the numbers coming in back in 2013, there was not a requirement of residency. That happened only after the horse had bolted.

Martin Donnelly: The issue was not the requirement; it was the evidence.

Mr Burrowes: Of course it was the evidence.

Q104 Chris Heaton-Harris: It is in the Report at paragraph 2.4, which you have agreed to. There are all sorts of points in there, such as that the SLC did not routinely require supporting evidence to residency checks—it was a tick-box requirement. I struggle to believe that that is all that was required, that the Department was happy with it and that the SLC would allow such an easy process for a known risk group—it was not a known risk group according to BIS, but it was according to just about everybody else. First, why was the SLC so slack on this when it knew it was a problem and, secondly, why was BIS so slow to react to it?

Chair: Mr Lavery, you go first. Give him a breather.

Mick Lavery: We were following the settled processes that had been in place for a number of years. We inherited the process when we took over the processing of applications, which had previously been done by the local authorities.

Q105 Mr Burrowes: Weren't you previously alerted by DWP that a bunch of non-UK nationals were doing this kind of action?

Mick Lavery: We weren't alerted by DWP. We were alerted by our own counter-fraud team.

Q106 Mr Burrowes: "In July 2013, the Department for Work & Pensions... separately alerted BIS to a group of 48 non-UK nationals that DWP was investigating who had applied for National Insurance numbers to claim student support for courses at alternative providers."

Mick Lavery: That is absolutely correct, but we spotted it ourselves in March 2013 and did our own sampling exercise. We were onto it before the DWP's sampling exercise, which confirmed what we found and investigated. If I can finish, please, Chair. We were following the settled processes that we were commissioned and funded to carry on with.

Chair: Didn't you understand? You are sitting there saying, "We were following a process"—

Stephen Phillips: Maybe we should hear Mr Donnelly's answer to Chris's question.

Q107 Chair: I will come to him in a minute. What astonishes me is that you were following a process and your guys were responsible for it, but nobody put up their hand up and said, "I'm not

just going to follow the process. There might be something wrong in this that might just lead to a little bit of fraud. Shouldn't we think of a more sensible way of doing it?"

Mick Lavery: With respect, Chair, that is exactly what happened. The counter-fraud activity that we uncovered in March and the larger sampling exercise in the summer bore out the fact that the settled process was not robust enough. We have gone back subsequently and looked at EU students at all public providers. We did a sampling exercise of 1,361 of those students, and only 11 of them may be ineligible for student finance and only one is definitely fraudulent. That bears out the fact that the original process was fit for purpose at that point in time. When we discovered that there were issues, we moved swiftly and tightened up the process, and we got additional funding from BIS to do so.

Q108 Austin Mitchell: Let me come back to Mr Donnelly. As I understand his answer to my question about why it wasn't regulated, he is saying, "We intended to, we thought about it, we decided not to and somehow we didn't. It is all too difficult." That is more or less what you said.

I just want to read you some correspondence from the University and College Union, whose general secretary is Sally Hunt. Her correspondence with the Department and your Minister makes very interesting reading. They wrote asking for an appointment on 25 June 2010, and they got it in September 2010. Hunt pointed to a series of high-profile public scandals involving for-profit companies. She asked that further moves be made to regulate them. In response, in April 2011, the Minister announced that the amount of student loan available to students studying with private providers would be doubled—so nothing was done, and you showered more money on them.

Sally Hunt is clearly a determined woman from this correspondence; I am very respectful of her. She wrote again in May 2011, and said that private providers are under no obligation to provide public information, comparable to public institutions. She got a reply from the Minister in June 2011, which said that the forthcoming White Paper would deal with those issues. Well, it didn't. It appeared in September 2011 and didn't deal with the issues of concern.

In January 2012, Hunt asked for another meeting and again raised the issue. She was told again that action was on the way. In April 2012, she had another meeting with the Minister to raise the issue of private providers accessing public subsidies. She pointed to a number of specific points in a long letter on 8 May 2012. The Minister wrote back in June 2012 to note his concerns and state that the Government would take steps soon. Well, they didn't. They took none of the measures, as she points out. In fact, the number of students going to those institutions has trebled—sorry, the cost to providers has trebled to £100 million.

In desperation, getting no action from the Department, Hunt wrote to the Public Accounts Committee to set out the problem. Why was nothing done about all these representations that you were getting pointing to fraud and problems in the system?

Martin Donnelly: I would have to separate specific issues about fraud, which we did aim to follow up, from wider issues about legislation, the system and a ministerial decision to raise the fee cap to £6,000, which are obviously policy issues. When we knew we were not going to get legislation, we progressively tightened the way in which we controlled the colleges through looking at their finances, through ensuring students were on a designated course, through using the QAA to look at the quality of provision, to fill that space.

Can I just return to the point—

Q109 Chair: No, don't return. Answer the question.

Martin Donnelly: I think I have answered the question.

Q110 Chair: I don't think you have answered the question. Why did you start the system without the proper regulatory framework in place? Why did you start? Didn't you know about individual learning accounts? That was so well known as a big, big issue that was got wrong. Why did you start the whole ruddy thing?

Martin Donnelly: I'm not an expert on individual learning accounts.

Q111 Chair: Well, you should have been. Government knew about it.

Martin Donnelly: The regulatory structure was very different.

Q112 Mr Bacon: Hang on. First, you should have been an expert on individual learning accounts. I remember it at the time and I was on this Committee when it happened. One of the first things that happened to me when I became a Member of Parliament in 2001, was that I was prompted by some Opposition Whips to apply for an Adjournment debate on this thing called individual learning accounts, about which at the time I knew almost nothing. They said, "Don't worry, you won't get it." I did immediately. I therefore assumed wrongly that that was how Adjournment debate applications worked.

I then boned up on it considerably over many days. That was in the autumn of 2001. Then there was a report by this Committee following a Report by the NAO, and there was also a report from the Education Committee. You say that the design and structure are different. I can tell you, Mr Donnelly, these things—multiple applications from individual addresses, applications submitted in bulk—are extraordinarily familiar and very similar to the individual learning accounts.

You did not need to be an expert on it; you just needed to know that this type of thing, very similar, had happened before. You are basically saying that you did not know. Is that right?

Martin Donnelly: No. We are saying the case of the Romanian and the Bulgarian—

Q113 Mr Bacon: Mr Donnelly, I am really asking about you. You said you were not an expert on the individual learning accounts. Are you saying that you did not know about the individual learning accounts episode?

Martin Donnelly: I did not know in detail.

Q114 Mr Bacon: Did you know anything about it at all?

Martin Donnelly: I knew that there had been problems of financial control.

Q115 Mr Bacon: Did you know anything about it at all?

Martin Donnelly: I don't know a huge amount about it, no.

Q116 Mr Bacon: Did you know anything about it?

Martin Donnelly: I knew that there had been issues about how effectively money had been spent.

Q117 Mr Bacon: Did you know there were bulk applications trading in the secondary market?

Martin Donnelly: No.

Q118 Mr Bacon: Did you know it was a website-based application? All you had to do was provide your name, address and the bank account where you wanted the money sent, and then the computer sent out the money without any checks. Did you know?

Martin Donnelly: That is a very significant difference from our system.

Q119 Mr Bacon: I know—I understand that that is now different. It is probably tighter than it was then. It seems to me that it is your job to know about these things. Surely, when some new proposal for expenditure comes along, the first question an accounting officer should ask is, "What do we already know?" In the words of Michael Scheuer, "Check the checkables." What do we already know? Why did you not check what you—or Government—already knew?

Martin Donnelly: We were starting from a different place. We had a stable system of fairly light supervision for alternative providers, which had lasted for some years, decades in many cases.

Chair: But you went from £50 million in 2010-11, to £675 million in 2013-14, to £900 million in 2014-15.

Q120 Mr Bacon: You say you were starting from a different place, but actually the individual learning account was about funding alternative providers and getting marginal students into education. It was a very similar place in many ways. May I repeat my question? Why did you not check what Government already knew?

Martin Donnelly: What we did was—

Q121 Mr Bacon: I was not asking you what you did. With respect, I was asking why you did not check what Government already knew.

Martin Donnelly: I cannot answer in detail how far that was consciously taken account of when we tightened the processes, which we did before we increased the fee in 2012.

Q122 Mr Bacon: But my point is that as the accounting officer, it was your job to check what Government already knew, wasn't it?

Martin Donnelly: I was satisfied that what we were doing at the time was proportionate, and as new issues arose, we moved to deal with them while delivering for students and protecting the taxpayer.

Mr Bacon: Well, apparently not.

Chair: Protecting the taxpayer? My God!

Q123 Stephen Hammond: Mr Lavery, may I guide you to paragraph 6 of the summary? When 50% of the applicants were either “unable or chose not to provide evidence”, what did you do?

Mick Lavery: We have written to the individuals concerned and told them that if they do not either provide the evidence to prove that they are eligible—that number has increased over time, and has increased since the Report was prepared—or get in touch and start paying the moneys that they owe us, we will register them on CIFAS, the fraud service that reports individuals as acting fraudulently to the police via that website and that service.

Q124 Stephen Hammond: What did you do to raise that issue with BIS?

Mick Lavery: We are in ongoing discussion with BIS around how we are dealing with individual accounts, and there has been a regular update—

Q125 Stephen Hammond: What have you done to put in place a system that would not allow people not to be able to choose not to provide evidence?

Mick Lavery: Sorry, could you say that again?

Stephen Hammond: If the system is such that people have been unable or have chosen not to, at what point do people know that it is not acceptable not to provide evidence?

Mick Lavery: The system now has been tightened so that if you do not provide the evidence, you cannot get a loan. For those who did not provide evidence and did get a loan, as I say, some have subsequently have provided evidence. For those who have not, we have deemed them all to be fraudulent and told them that we will report them.

Q126 Stephen Hammond: So if I look at the last sentence of paragraph 6, which states that “992 ineligible students had already received £5.4 million of support”, how much of that are we likely to see coming back to the public purse?

Mick Lavery: That figure has reduced to 832 students receiving £3.84 million of support.

Stephen Hammond: Okay, so that is £3.84 million, which we have now got to £3.4 million.

Mick Lavery: We have recovered £951,000 to date, and we will recover £442,000 from alternative providers no later than February 2015, so those two figures combined are £1.39 million, which is 36%. The outstanding amount of £2.447 million we are pursuing the individuals for, and the amounts collected change on a weekly basis. In fact, we collected another £3,000 last week.

Stephen Hammond: Some of that is slightly reassuring.

Chair: Not very.

Mr Burrowes: That is wishful thinking.

Q127 Stephen Hammond: Out of 5,548, 992 are ineligible. It strikes me that 50% had chosen not to or were unable to supply. Given that 992 is 16% of 5,548, it strikes me that that is very odd. How have you reassured yourself that the other element is actually eligible? It seems to me a very large discrepancy between the two numbers.

Mick Lavery: The original exercise was 11,191 students. Around half of them provided evidence of eligibility straight away, leaving 5,548. Out of those 5,548, we made payments to 1,333. They had had money and had not proved eligibility, so that number has been reducing as they have produced evidence of eligibility to 992 at the time of the NAO audit, and to 832 as we sit here today. The figure that has potentially been paid out to ineligible students was £5.4 million at the time of the NAO Report, and it is £3.84 million today. We are now having a final sweep of these individuals, telling them that they have one last chance to prove their eligibility—another proved eligibility over the weekend—

Q128 Stephen Hammond: But we are basically writing off £3.4 million.

Mick Lavery: No. If I can just finish, the remainder we are going to report to the authorities as being fraudulent. Of the £3.84 million has been paid out, £951,000 has been collected to date, another £442,000 will be collected from alternative providers by February, and for the remaining, just under £2.5 million we are pursuing the individuals via the normal collection process, including the use of overseas debt collection agencies.

Q129 Stephen Hammond: So you are convinced that the 4,600—my maths is not going far enough—students who you initially thought were unable or chose not to have now given you a source of information that proves to you that they were eligible for those payments?

Mick Lavery: Not everybody who applies for student finance follows through. Quite typically, something like 25% of all applicants a year do not actually follow through and take up their offer of student finance.

Q130 Stephen Hammond: Can I guide you to paragraph 8 of the summary? Why on earth do you give money to people before you have made the necessary checks that the registered students have an awarding body to make those student support payments?

Mick Lavery: First and foremost, it is not a requirement of the student finance regulations, so we are—

Q131 Stephen Hammond: So what have you done to raise that with BIS and say that this is an absurd position?

Mick Lavery: Per the conversation earlier on, we are now working with Edexcel, and we will make sure we share information on an ongoing basis. I understand that BIS is changing the regulations to make it a requirement—

Stephen Hammond: I know—I realise that—but it is an absurd position.

Q132 Chair: Didn't you realise it was daft to start with?

Mick Lavery: It was part of the settled process. By virtue of going to a public provider, you are automatically registered with an awarding body in most instances for most courses.

Chair: Oh, dear!

Mick Lavery: The student finance regulations are what they are, and we follow them.

Q133 Stephen Phillips: These overseas debt collection agencies are going to be tasked with collecting this £3.4 million—

Chair: It is much more than that.

Stephen Phillips: Or whatever it is, from bogus students in Romania, Bulgaria and Greece, and all over the EU. How much will that cost? What budget has been allocated for instructing those overseas debt collection agencies?

Mick Lavery: Debt collection agencies typically cost anywhere between 7% and 30% in commission, depending on the age and the size of the debt.

Q134 Stephen Phillips: Are you giving commission, or are you factoring the debts?

Mick Lavery: Sorry?

Stephen Phillips: You are actually getting them to collect on your behalf rather than selling on the debt, are you?

Mick Lavery: That is correct, and the commission is anywhere between 7% and 30%, depending on the age and so on.

Q135 Stephen Phillips: That 7% to 30% figure applies to collecting debts in the UK, doesn't it?

Mick Lavery: That is the range of commissions we pay to our debt collection agencies.

Q136 Stephen Phillips: Well, I can tell you now that you are not going to get anyone to do it in Romania for 30%, but leaving that point aside, what is the expected bad debt ratio even after you have instructed debt collectors?

Mick Lavery: We have had increasing success in our overseas debt collections over the last few years—

Q137 Stephen Phillips: Mr Lavery, I haven't had to shout at you yet. I asked you a very simple question: what is the bad debt ratio?

Chair: Stephen, I think that goes back to his previous answer to me.

Mick Lavery: I don't know off the top of my head, I'm sorry. I can find that out for you.

Q138 Chair: I think it is important that the Committee should understand that 40% of these students are not people from Barking and Dagenham who might not quite have made it to university and who want a higher national diploma. They are EU students, and the Student Loans Company's ability to get money back from European students is abysmal. It is appalling, and we saw that in the overarching figures that you helpfully gave us. About 11% of your student total was EU, but 26% of your debt was EU.

Mick Lavery: Chair, can I answer Mr Phillips' question? I have the figures here. There is no such thing as bad debt. The debt does not get written off, so we doggedly pursue it to the end. At no point does the debt get written off. To try to answer your question, there are 22,000 EU borrowers living overseas who owe £145 million, and 7,000 of those, owing £19 million, are currently in arrears.

Chair: Say that again.

Q139 Stephen Phillips: Give us those numbers again, Mr Lavery. My jaw is hanging for a reason: I am absolutely dumbstruck.

Mick Lavery: There are 22,000 EU overseas borrowers.

Q140 Chair: Across the totality of the loan book?

Mick Laverty: Yes, owing £145 million. Of those 22,000, there are 7,000 in arrears, and the arrears figure is £19 million.

Q141 Stephen Phillips: So one quarter of those to whom we are giving money and come from the EU—

Chair: One third, if it is 7 million out of 22 million.

Stephen Phillips: One third owe the British taxpayer millions and millions of pounds?

Mick Laverty: In terms of the number of borrowers, but not in terms of the amount owed, correct.

Q142 Mr Bacon: Can you remind us? The 22,000 EU borrowers in the Student Loans Company book are out of a total of how many borrowers?

Mick Laverty: That would be something around 3.4 million¹, I believe, but I would have to—

Q143 Mr Bacon: So it is 22,000 out of 3.4 million, yes?

Mick Laverty: I would have to check those figures, but—

Q144 Mr Bacon: Roughly?

Mick Laverty: Yes.

Q145 Mr Bacon: Okay. You can always write to us and correct it. The total debt of those 22,000 is £145 million?

Mick Laverty: For EU borrowers back overseas, it is £145 million. They are 22,000 EU borrowers living overseas, not EU borrowers in the UK.

Q146 Mr Bacon: They are EU borrowers who have gone back home and who owe £145 million?

Mick Laverty: Correct.

Q147 Mr Bacon: And £19 million is the arrear amount?

Mick Laverty: Yes, that is correct.

¹ Subsequent note from witness: The actual number is 3.283 million

Q148 Mr Bacon: That is very helpful. We are talking about students who have completed their courses and have gone home, and they owe money that they are paying off in the normal way, and £145 million is the value of that, except the £19 million that is in arrears?

Mick Lavery: Completed or withdrawn from their course.

Q149 Mr Bacon: Yes. What is the comparable figure for the 3.4 million students? Of the 3.4 million students who have completed or withdrawn from their courses, what is the value of the outstanding debt and what is the arrear number?

Mick Lavery: The whole amount, £3.84 million, is outstanding because they are ineligible, so all the money is owed back.

Q150 Mr Bacon: You misunderstood my question. There are 22,000 students who have either finished their courses and gone home or have withdrawn, and they owe £145 million. Seven thousand of them are in arrears, totalling £19 million. I am saying that the 22,000 are out of that 3.4 million, or thereabouts. I am asking about the other students who make up the 3.4 million.

Stephen Phillips: The UK ones.

Mr Bacon: They may not be UK, because of course they may be from elsewhere, but in total those 3.4 million students are pretty much UK.

Chair: They will be UK.

Mr Bacon: Are those 3.4 million students comparable in the sense that they are also people who have completed their courses and are now paying back their loans in the normal way, or who have withdrawn, or does that 3.4 million figure include students who are still studying?

Mick Lavery: It will not include students who are still studying—

Q151 Mr Bacon: So it is a comparable with the 22,000, yes?

Mick Lavery: I'd like to check, but—

Q152 Mr Bacon: Basically, with the proviso that the 3.4 million may not be exactly accurate, it is a comparable number?

Mick Lavery: I would like to check the figures, but it sounds—

Q153 Mr Bacon: Yes, okay. What is the total value of what the 3.4 million owe? How many of them are in arrears? What is the value of the arrears? In other words, the same three numbers.

Mick Lavery: I do not have those figures easily to hand, but they are easily available.

Q154 Mr Bacon: You must know the value of the student loan book.

Mick Lavery: It is something around £66 billion².

Chair: But that won't be the same figure.

Q155 Mr Bacon: No, but it presumably includes people who are still studying. Does it?

Mick Lavery: No, you don't owe any money until—

Mr Bacon: Okay, so that figure is comparable to the £145 million.

Chair: No, it's not.

Mr Bacon: Isn't it?

Mick Lavery: I'm sorry, you've lost me.

Stephen Phillips: The point that Mr Bacon's trying to—

Chair: I'm going to draw this to a close. Very helpfully, you have given us the outstanding debt and the proportion of debt that is in arrears. Can you give us a similar outstanding debt and proportion of debt for UK students so that we can make a comparison between EU and UK? Can you do that in writing? It is unfair to expect you to do otherwise. That would be helpful.

Mr Bacon: I basically want the comparable numbers for the UK.

Q156 Chris Heaton-Harris: On entry requirements, paragraph 3.17 on page 23 states: "Edexcel recommends that, for its Higher National qualifications, all students should be at least level B1 on the Common European Framework of Reference". Paragraph 3.17 goes on to state that this is for "limited users' with 'frequent problems in understanding and expression.'" Do you think that is a reasonable level of English to be taking a higher national qualification?

Rod Bristow: I will answer that, but I will first say that we, as an awarding body, do not set entry requirements. We make recommendations, and it is the responsibility of the provider to decide the entry requirements that they set for each individual learner. We make a number of recommendations as to what we think would be appropriate. In the case of English, it is true that we set the level, on the common European framework, at B1, but we did that partly on the basis that that is the Border Agency's recommendation for learners coming in on a below-degree-level qualification. HNDs are not degree level; they are level 5, which is one level below degree level. We took the recommendation from the Border Agency, and we clearly felt that that was a recommendation that we should make to centres. In the light of developments and what we have learned in the past 18 months, we have decided to change that requirement. A level B1 is between a 4 and a 5. We are going to change that recommendation to a level 5 minimum. In the natural process of redeveloping the higher national diploma qualification, which we are doing, we have

² Subsequent clarification from witness: The actual value was £62bn (of which £54bn is BIS funded) at 31 March 2014; £69.5bn (of which £61bn is BIS funded) at 30 November 2014.

decided that we should make the level of English a requirement, not just a recommendation. That is not something that awarding organisations do, but we have decided that it is very important for us to do, so we are going to do it.

We will consult with providers on the right level to set that requirement, but in the meantime we are changing the recommendations so that the level 5 becomes the IELTS equivalent. The comments you have given us come from an organisation called IELTS, not the organisation whose level we originally said. I am sorry, there is more than one organisation that sets English levels. The key point is that we are changing the recommendation so that it is level 5. We feel that is appropriate.

Q157 Austin Mitchell: But level 5 is only limited uses of English. You would have to have level 5 to appear on “Skint” about Grimsby, if you had a lot of F-words in it as well. Level 5 is not adequate. You cannot take a qualification unless you are conversant and fluent in English. I found that when I came down as a raw Yorkshire lad to Oxford university. I was all right for studying Chaucer, but anything else was a bit difficult. Level 5 is pathetic.

Rod Bristow: Well, a number of institutions use level 5.

Q158 Mr Jackson: What slightly concerns me is that you do not seem to understand the bigger picture. We have heard all of the bureaucratic rationale for this, but I do not think you understand the impact that it has on your reputation as an organisation. Blue-chip employers and other higher education institutions are looking at this and at Edexcel and are thinking, “These people have met the appropriate standards so it must be fine.” I just do not think that you understand that it is not fine and that it is, frankly, failing the country for you to say, essentially, “It is my considered opinion that it is fine because I did not make the decision.” You should be saying, in straightforward answer to Mr Heaton-Harris, “It was a mistake, it has damaged our reputation and it is not good for the UK and our industry and commerce.” My personal view is that that is the case and you have not done that. I do not think that is acceptable.

Rod Bristow: May I—

Mr Jackson: It fits in an overall picture of a nonchalant attitude, both from the Student Loans Company and the Department, that it is someone else’s problem and someone else’s decision. That is not good enough.

Rod Bristow: If I may say, that would absolutely not be good enough, but it is absolutely not the case. We take the reputation of the BTEC higher national diploma qualification extremely seriously. It is a qualification that has been around for a large number of years and is highly valued by employers, as you say—

Mr Jackson: Yes, but it is analogous—maybe I am out of date here—to the former polytechnics that would have offered an HNC or an HND. The better polytechnics, such as Plymouth and Kingston, would have offered an HNC almost as a similar qualification to a university degree. The idea that the people enrolling, turning up, learning and presumably graduating with an HND can barely speak English—

Mr Burrowes: But to be fair, they have a partial command of the language. Coping with overall meaning in most situations, they are likely to make many mistakes. Is that acceptable?

Q159 Mr Jackson: And you are giving your stamp of approval to those people.

Rod Bristow: Clearly, we would not change it if we thought—

Q160 Mr Burrowes: No, that's 5. That is what 5 is. That is what you have said. You have considered it all, you have recognised the situation and you are now making the recommendation that those students should have a partial command of the language, although they are likely to make many mistakes with the overall meaning in most situations. Is that good enough? Would that person, who had a partial command of the language and would make many mistakes with the overall meaning, get a job?

Rod Bristow: I think you have to remember that a lot of students learn English during their course.

Q161 Mr Burrowes: So that is what you are doing. That is the given. They are not going to have an adequate knowledge of English, so the burden will be on the institutions to teach them.

Rod Bristow: We are also taking a far more significant step, which is to make English a requirement, not a recommendation.

Q162 Chair: At level 5?

Rod Bristow: No, we haven't determined the level. The level will be subject to consultation.

Q163 Mr Jackson: What level will you make it, then?

Rod Bristow: The level will be subject to consultation, because we need to understand—

Q164 Chair: What are you recommending?

Rod Bristow: We haven't got a recommendation yet. We will go to consultation.

Q165 Chair: Well you must have a thought. You knew you were coming here.

Rod Bristow: It will be possibly 5.5 and above.

Q166 Chris Heaton-Harris: I am not convinced that you completely get this. You said that you are very passionate about maintaining the standard of the HND qualification.

Rod Bristow: Yes, very much.

Q167 Chris Heaton-Harris: If employers in a few years' time are looking at CVs and interviewing people—it doesn't matter where they are from in Europe—whose English is not at a standard that they can employ because they would not be able to interact with the work force, are you not damaging the respect that employers have for that qualification?

Rod Bristow: Bear in mind that we are talking about an entry, not an exit, level of English. We are doing a large number of things to assure the quality of what is happening in all providers, including private providers—

Q168 Chris Heaton-Harris: Really?

Rod Bristow: Yes, indeed, and not just in the area of the entry recommendations—the soon-to-be requirements.

Q169 Chris Heaton-Harris: When does this improvement start? Figure 10 shows that providers are taking in students with language attainment levels of less than the ones I just talked about.

Rod Bristow: It has started.

Q170 Chair: When?

Rod Bristow: It has already—

Chair: When?

Rod Bristow: I am not talking about English. I am talking about other changes that we are making to the HND. The changes to the recommendation will be made in January, and the changes to the requirement will be made during the course of next year, as we redevelop the qualification.

Q171 Chair: Can I just be clear? If it is a requirement, does that mean that they cannot offer the course without—

Rod Bristow: That is correct.

Q172 Chair: Okay. So why on earth didn't you do this in 2012?

Rod Bristow: As I said, that is not the role of an awarding organisation. Our role is to ensure that the quality of the qualification—

Q173 Chair: Why didn't you do an English threshold in 2012?

Rod Bristow: Our role is to ensure that the outcome—the standard of learning that is reached by the learner—is at the appropriate level, and that certainly includes command of English.

Q174 Mr Jackson: But the Report says on page 24, paragraph 3.19, "It is difficult for prospective students or other interested parties to make a fair assessment of qualification success rates at individual alternative providers. Providers are not obliged to publish statistics on examination results. BIS does not monitor pass rates, and the Quality Assurance Agency does not systematically report the pass rates of the providers it reviews." How are you possibly able to make a rational decision or analysis with demonstrable evidence when you are not collecting any of the data?

Rod Bristow: We do collect the data.

Q175 Mr Jackson: These students are getting ripped off, frankly. They turn up expecting a high-quality education. They have relatively poor English language skills, and they expect to get a world-class qualification. No one seemingly thinks that it is appropriate to measure whether they have been successful or not. You, I would suggest, are undermining your own strong brand and that of British higher education by allowing this situation to persist. Were you able to say, "We've monitored X amount of institutions, and we have found that the system is evolving, it works and these are the results," you would be in a strong position, but the Report does not say that. It says that the information is clearly not being routinely collected.

Rod Bristow: Well, the Report does not say it, but we do collect information on the learning outcomes.

Q176 Chair: Let me quote to you today's *Telegraph*. The chairman of the Quality Assurance Agency is saying: "A rapid expansion in the number of students enrolled at private colleges risks 'tarnishing the reputation' of the higher education system...Sharp increases in enrolments combined with high drop-out rates is resulting in a 'waste of public money'". So it is all around the system. What I do not understand is that you could have done all this in 2012, but you chose not to and are doing it here. We have evidence from the whistleblower at LSST, who has been everywhere. He says: "Consequently, some of our eastern European students spoke hardly any English at all, having entry level 1 literacy. Indeed, we routinely had Romanians translating lectures into their own language for their countrymen during teaching sessions."

Rod Bristow: As I said, our job is to ensure that the qualification—the certificate—that is awarded is of the appropriate standard. That is the role that we play.

Q177 Austin Mitchell: You can't even ensure that if they cannot read it properly. Why should you have such low qualifications for English ability on arrival before you start the course when the colleges of higher and further education must have higher standards and examine and train their students in English before they begin the course? There has been a lot of argument about Grimsby Institute. It is a marvellous institution, but they were forced to take Chinese kids to Leeds to

take an English course at some expense to themselves, because they were not allowed to do it. They are now allowed to. Why are they forced to do it—and they should do it—but you do not have the same standards in these private sector institutions?

Rod Bristow: We do have the same standards in the private sector as we exercise in the public sector.

Q178 Austin Mitchell: You don't! It says so in paragraph 3.18.

Rod Bristow: We as an awarding body have the same standards across private and—

Q179 Stephen Phillips: Sorry, but you are now talking about awarding. Stop it, Mr Bristow, because Mr Mitchell, and indeed everyone else, is asking you about the entry level, not the awarding level. You can try to sidestep it in that way if you want, but that is not what you were being asked about. Now, answer Mr Mitchell's question.

Rod Bristow: I think it is fair that we do need to raise the standard of English.

Q180 Austin Mitchell: Before they start.

Rod Bristow: Before they start. That is what we are doing.

Q181 Stephen Phillips: May I put this to you? One of the net consequences of your not having done so previously is that my constituents are essentially being asked to fund the English language training of those in the remainder of the EU who have no English language and who cannot secure a university place in their own countries but, essentially, can secure training here for which the British taxpayer will pay as a result of the low standards that you impose for those who come here to enter these private institutions. That is another consequence of what you are doing—do you understand that?

Rod Bristow: I understand that we do need to raise the level of English. We are doing it and we are committed to doing it. We are committed to making a large number of other changes as well that will ensure that the reputation of the BTEC HND continues to remain high.

Q182 Mr Bacon: Is there anything incorrect about what Mr Phillips just said?

Rod Bristow: Could you repeat what you said?

Q183 Stephen Phillips: One of the consequences of your having such low entry requirements in English is that my constituents in Sleaford and North Hykeham, and everyone else's constituents throughout the country, are essentially funding English language training for students in the rest of the EU who choose to come to one of these private providers in circumstances where they could no doubt not secure a university place in their own country. That is a disgrace. There are policy questions in there, but it is also a function of the appalling lack of entry requirements that

Edexcel, itself a private company, has in relation to those coming to these institutions. Do you understand that?

Rod Bristow: I understand what you are saying.

Q184 Stephen Phillips: And it's correct, isn't it?

Rod Bristow: I cannot say that all the things that you said are correct, but equally I cannot say that they are incorrect.

Q185 Mr Bacon: Well, my question was: is anything that Mr Phillips said incorrect?

Rod Bristow: As I said, I cannot say that anything in there is incorrect either—I think it is entirely possible.

Chair: Okay, let's move on.

Q186 Chris Heaton-Harris: I just want to ask: who is looking after the student in this? I know that there are a lot of causes behind drop-out rates—Mr Donnelly described some earlier—but if you are coming to a different country to learn a course and you are struggling with the language, could that not be one of the things that plays into the high drop-out rates that we have seen in public providers in the past couple of years?

Rod Bristow: It's conceivable that it is one of those things, and there are conceivably other things that could play into a high drop-out rate as well.

Q187 Chris Heaton-Harris: I appreciate the cop-out answer, but it is absolutely one of the reasons, isn't it?

Rod Bristow: I said that it is absolutely possible that it is one of the reasons. There are other possible reasons, some of which are related to the level of recruitment and the degree to which proper recruiting with integrity has taken place. We are taking concrete action to ensure that inappropriate recruitment, application of standards and care for the progression of learners are dealt with firmly.

Chair: Let me just deal with the London School of Science and Technology. Can we turn to that?

Q188 Chris Heaton-Harris: Sorry, let me deal with recruitment. There are a couple of adverts in the annexe to this paper. You mentioned inappropriate recruitment. Do you not feel that either the sector has let you down, or you have let down the sector, by not stopping these sorts of advertisements? If you were on Facebook in Romania now, they would be popping up on your screen as they were boosted to you: "Come to England, get loads of money and get a higher education qualification."

Rod Bristow: I agree with the point that you are making. I think the advertisements attached in the appendix are unacceptable. They do not constitute recruitment with integrity. Wherever we see them, although I have to say we do not actively monitor recruitment—

Q189 Chair: Who does?

Rod Bristow: All the providers do.

Chair: Mr Donnelly, do you monitor recruitment?

Q190 Chris Heaton-Harris: It says in here, at point 2.11 on page 17: “BIS has not conducted a specific investigation into recruitment practices”. Is that going to change?

Martin Donnelly: It is the case that we ask all eight alternative providers, as I think the Higher Education Funding Council for England does, to say whether they are using agents. Very many legitimate institutions do, so we do check that.

Q191 Chris Heaton-Harris: Sorry: “BIS has not conducted a specific investigation into recruitment practices”. Is that going to change?

Martin Donnelly: It is outside the scope of the legislation for us to look at the activities of agents, but if we have evidence that they are acting unscrupulously, we pass it to the relevant authorities, and we have done so in several cases which are now being followed up. I cannot give further details in public.

Q192 Chair: We have evidence, Mr Donnelly. Why doesn't that make you think you should review your procedures and amend them, for heaven's sake? Have you read figure 15? “You can combine this opportunity with other responsibilities such as work/children/your own business. Did you know there is a seat for you at LSST Business School?...Start this September whatever your circumstances...LSST is far more interested in practical business skills than students reading and writing from masses and masses of texts.”

Q193 Stephen Phillips: In fact—before we go on—it says: “This course is paid for by student loans and grants while giving you up to £10,000 per year living/maintenance allowance and allows you to continue with employment.”

Q194 Mr Bacon: It is absolutely mind-blowing. Your answer is: “Oh, it's outside the scope of the legislation.” Correct me if I am wrong, but most legislation is crafted with the advice of civil servants. Why did you design a scheme that allowed the expenditure of so much money without this basic check being possible?

Martin Donnelly: In the case of those two adverts, as the NAO has recognised, one of them is not recognised by the college concerned. In the case of the other one, there have been issues which—

Q195 Chair: Mr Donnelly, the problem with your responses is that you just don't look at the bigger picture. You think, "If I can just do a little bit on this question, that will get me out of the overarching thing," which is that we have totally inappropriate—

Q196 Stephen Phillips: You haven't done an investigation, yet again, in this area. Your answer to that is, "Well, there's no legislation about that." I don't think I can recall another permanent secretary turning up to the Public Accounts Committee who is the accounting officer and saying, "Actually, there is no legislation which requires me to conduct an investigation into whether or not there is significant fraud going on." Most permanent secretaries and most civil servants regard it as part of their job to make sure that public money is well spent. Why don't you?

Martin Donnelly: That is a different point to the one about the adverts. In the case of the adverts, I have made it clear what the position is on those two. If there are misleading adverts, the Advertising Standards Authority pursues them, and it has done so in several cases. If we find that a college is knowingly working with an agent who is giving misleading information, then we will also pursue that issue, but we cannot control—

Q197 Mr Bacon: You actually said you don't have the remit to look at recruitment agents. Your remit is to safeguard public money. That is a broad enough remit to allow you to go anywhere public money might be endangered. It is really not that complicated.

Martin Donnelly: And we do that by ensuring that students who apply for funding have to meet very clear criteria, which are then checked by the Student Loans Company before funding is granted.

Mr Bacon: But if there are dodgy recruitment agents—

Chair: Can we move on?

Q198 Mr Jackson: I was a bit confused. At paragraph 3.16, on entry requirements, after a lot of waffle about the basis on which these students are or are not enrolled—as we have heard—it says: "BIS estimates that around 30% of students at alternative providers are recruited on the basis of work experience, rather than previous academic attainment." How do you collect that data? Who collects that data, where is it from and how is it generated? What's the methodology? How do you know that it's 30%? That is very high, if you ask me. You are asking people who are doing HNCs and perhaps associated qualifications who have no previous academic qualifications, just work experience. Where do you get that figure of 30%?

Martin Donnelly: It will, as you say, be essentially HNCs and HNDs. I do not know precisely where that figure comes from. I assume it is from evidence of talking to the colleges, but we can write to you with more detail on that.

Q199 Chair: Mr Donnelly, can you tell me one figure? Maybe this figure will help us. How many of the funded students in the whole system have ended up with an accredited HE qualification?

Martin Donnelly: Since the expansion is still going through the system, we do not yet have clear figures on that. It is now a requirement—

Q200 Chair: It is a year or a two year—come on. It started in 2012 and you look at the arc, it went up. How many people, funded through this system, so far have got an accredited HE qualification?

Martin Donnelly: We will have to come back to you with detailed information on that. It is the case that some people take more than two years—

Q201 Chair: No, it doesn't. It is a one or two-year qualification.

Martin Donnelly: But they can also take some time out, and some people do.

Chair: They might exceptionally. It is a one or two-year qualification.

Sir Amyas Morse: They can take longer, Margaret. They can take up to five.

Chair: They can, but it is a one or two-year qualification. It is the exception who does five; the norm is one or two. That is for full-time. I am assuming that they are getting full-time grants and loans.

Q202 Mr Jackson: Can I go back to Edexcel? Again, paragraph 3.16 says: "Edexcel does not specify entry requirements, but provides guidance on academic standards". You have already said that, Mr Bristow; however, it goes on: "noting that students with a strong or diverse profile at A-level or equivalent 'are likely to benefit more readily from the programme'." What does that mean? What is a "strong or diverse profile" at A-level?

Rod Bristow: It is basically saying that if you have strength at A-level, it will be helpful in terms of this programme.

Q203 Chair: Can I look at two of the worst? You have just given LSST the all-clear, haven't you?

Martin Donnelly: They have been on probation. My understanding is that that happened in August. Ministers placed LSST on six months' probation. Our teams are keeping attendance rates under review. Those indicate that the position is improving. The college has passed financial and other tests, so it remains designated, but we are still watching it closely.

Q204 Chair: I don't understand why you have not knocked them off. It appears that they recruit on the street. Is that right? They have in the past recruited on the street for people to do the course.

Martin Donnelly: There were some press comments about LSST, as you know.

Q205 Chair: Did they go out on the streets and recruit students?

Martin Donnelly: I am not aware of that, but the investigator found no evidence of fraud or serious malpractice.

Q206 Chair: That was one of the allegations—that they recruited on the streets—by a whistleblower who eventually came to us because you were so lax and unable to respond to everything that he raised.

Martin Donnelly: Well, Chair, we have sent in independent auditors to check that and the NAO has seen their report.

Q207 Stephen Phillips: Sorry, your auditors went in principally to check on attendance rates in LSST, didn't they, Mr Donnelly?

Martin Donnelly: They were also looking for fraud or other forms of malpractice.

Q208 Stephen Phillips: They were not, for example, looking at whether LSST's recruitment practices involved tapping up people on the streets, saying, "Hey, come and be a student with us. You can have £10,000 a year." They weren't, were they?

Martin Donnelly: I don't have any evidence about that.

Q209 Stephen Phillips: Don't say, "I don't have any evidence." You commissioned the auditors to go in to LSST and do a piece of work. What were they tasked to do? Were they tasked to see whether LSST were recruiting people on the street, yes or no? If you don't know, say, "I don't know," not, "I haven't got any evidence for that." They are your auditors.

Martin Donnelly: Yes, I was trying to be clear with you. We sent them in to look at a range of issues, including those raised at the time by *The Guardian*. I do not have *The Guardian* article, but I assume that was one of the issues raised.

Stephen Phillips: Right, well, perhaps you would like to reflect on that answer because if it is correct, that is fine, but if it is not, you had better write to the Committee.

Q210 Chair: I'm not reading from *The Guardian*, but from what a whistleblower has sent to me. I will just go through it all because it is so shocking and I can't understand why you simply haven't knocked them off. Looking at their prior experiential learning—that is, whether or not they were qualified—that was done through the admissions and they were helped with that. Then, 40% of absentees are kept on the registers for financial reasons. In fact, I have a list that the whistleblower sent me—the public should know this because it is their money and mine that is being spent here. Somebody here attended 2% of courses and was not withdrawn. There are attendances of 18%, 16%, 20%, 10%, 12%, 1%, 14%, and 6%—way below 20%—all not withdrawn. They keep people on the list for financial reasons and no other.

There are allegations that they use the services of ghost writers to write their assignments: “Indeed, I received a private email from one such ghost writer, called Haider Ali, who is based in Lahore Pakistan, who offered to write plagiarism-free HND business assignments at £70 a go.”

The next allegation is that they only look at success rates for students who submit work and not for all students. A really serious allegation is that the college opened two new sites because it was expanding so fast, one in Hounslow and one in Luton. Those had no library provision, no computer facilities and no health and safety certificate. For about six weeks there were timetabled classes in business and computing without teachers being allocated.

Finally—this is quite extraordinary—“there are CCTV cameras in every room, many with microphones. E-mails are routinely checked, all personal post is opened centrally before being released to staff. Any staff member who asks the wrong question disappears instantly, so there is mass paranoia within the staff who are unable to do or say anything about the blatant fraud without losing their jobs.” And you have put them on probation.

Martin Donnelly: These are serious allegations. We essentially did two things. We sent an investigator from the Government internal audit service into the college and there was a separate full concerns investigation in the spring, published in July, by the QAA. Ministers ultimately made the decision to put the college on probation, requiring it to submit regular reports on attendance.

Q211 Chair: On your advice, Mr Donnelly. On your advice.

Martin Donnelly: I accept that we looked at the evidence that we had got and we put that to Ministers. We have to work on the basis of fair evidence and that is what we have tried to do.

Chair: Let me then ask, have you got any colleges?

Q212 Chris Heaton-Harris: There’s a reputation angle here, for Edexcel, the Student Loans Company and the Department itself. You would have seen the article in *The Daily Telegraph* on 2 December this year: “A Romanian builder, who cannot read or write, is being investigated for allegedly trafficking up to 40 people to the UK to fraudulently sign up for £10,000 student loans before taking a cut.” Do alarm bells not ring somewhere in the Department when someone who is accused of trafficking is using this policy—this instrument for education—as a method of trafficking?

Martin Donnelly: Yes, of course.

Q213 Chris Heaton-Harris: What do those alarm bells then make the people in the Department do?

Martin Donnelly: What we did last year was double the amount of money we gave to the SLC to manage its fraud arrangements, which helps to pick up when you get mass applications from a single source and so on, so that we pick them up at this stage.

Q214 Mr Bacon: How much? You said that you had doubled it; it must have gone from X to Y. What was the amount before and what was the amount after?

Martin Donnelly: It has gone to about £1 million now.

Q215 Mr Bacon: It went from £0.5 million to £1 million?

Martin Donnelly: Yes, that's right.

Q216 Stephen Phillips: On a £60 billion loan book—is that right?

Martin Donnelly: Most of that is actually pay. We are particularly focusing here on the new applications coming in.

Q217 Mr Bacon: How many staff did the £0.5 million buy you? How many staff did it buy you once you had doubled the budget, thanks to Mr Donnelly?

Mick Lavery: We have about 30 staff at the moment. I don't know the before and after, because some of the money would have been spent on things like membership of the credit industry fraud action service and other analytical activities. Not all of it would have been spent on staff; some of it would have been used on analytics. I can find you the figures very straightforwardly.

Mr Bacon: Can you write to us, please?

Q218 Chair: This illiterate Romanian builder that Chris was talking about recruited people for St Patrick's college. St Patrick's college was part of a college called the London School of Business and Finance Group, which has four colleges underneath it. St Patrick's college went from zero students on HNDs with publicly-backed loans to more than 4,000 in one year, giving it more money from the Student Loans Company than the London School of Economics. They had more money coming out of the Student Loans Company than the LSE.

Stephen Phillips: It is also the one with the highest number of ineligible applicants, isn't it?

Chair: Why did zero to 4,000 in a year not ring an alarm bell?

Martin Donnelly: We were concerned about this, and we subjected St Patrick's to a ban on recruitment in November 2013. It was only designated for this year, 2014-15, after the owners agreed a significant strengthening of its financial position. They have applied to move campuses, and we are considering their request.

Q219 Chair: Hang on a minute—my note tells me that the Student Loans Company funding was designated in 2013-14 as well, so it was not undesignated.

Martin Donnelly: Yes, but I think that we did briefly suspend some payments to some St Patrick's students in June 2013.

Chair: You are not really answering the question. If I saw a college on a list going up from nought to 4,000, I would have thought, “What on earth are they doing?” I would have asked some questions.

Mr Bacon: Why didn’t you ask some questions?

Q220 Chris Heaton-Harris: It comes back to my earlier point. It is about identifying risk—there were a number of flags, as we described—and then having some sort of financial control, maybe looking at the business side of this for Edexcel and the Student Loans Company and then having ongoing checks. It seems to me that we did not identify any risk. We had very little financial control, and we only had checks when the horse had bolted from this particular stable. That is really concerning, because the amount of money that seems to have gone potentially could be in the tens of millions of pounds.

Chair: Or hundreds.

Martin Donnelly: It would be, but that was not the case. We were actually very concerned, including about the financial position of St Patrick’s. It was made clear that it had to inject further funding, which it did—a further £3 million—to get into a situation where we thought that it was in a reasonable position to meet the criteria that we set out. We were also concerned about specific courses, and we suspended payments to students on one HND. We discovered that there were not substantive issues there. We now have a request to move campuses, and we are looking again, very closely, at St Patrick’s.

Q221 Mr Bacon: Did you say that there were or were not substantive issues?

Martin Donnelly: We found that there were not substantive issues. It was more a question of the course name, but we wanted to make sure that there was not anything else going on.

Q222 Chair: Did you know that these guys—who were also under this bigger group, the London School of Business and Finance Group—were also recruiting on the streets? At one point, they used a now-dormant company, Opportunity Network. Did you know that? Did you know that they were recruiting on the streets?

Martin Donnelly: I do not have detail about recruiting on the streets.

Q223 Chair: Did you know that they were recruiting on the streets?

Martin Donnelly: I don’t have detail on that, no.

Q224 Mr Bacon: You are answering a different question. If the question had been, “Do you have detail on whether they were recruiting on the streets,” you could answer, “I don’t have detail.” But the Chair asked, “Did you know?” The available answers are, “Yes, I did know,” or, “No, I didn’t know.”

Martin Donnelly: No, I didn't know because I was looking at the process being followed.

Mr Bacon: Thank you.

Q225 Chris Heaton-Harris: One of the students that this Romanian builder, Mr Mandache, signed up, said, "Mandache helped me enrol. I paid him £1,000. He enrolled me into management or business studies—something like that. Each student received £10,000 a year. I only got the money for three months because I dropped out of university. I didn't give it back because no one asked me to."

Mr Burrowes: That is the usual 20% drop-out rate.

Chris Heaton-Harris: Surely you can understand why we are getting a bit frustrated on this side of the table. You get stories like this in the public domain in court cases where the horrible word "trafficking" has been used and processes are only just beginning to be set up and risk is just beginning to be assessed.

Martin Donnelly: Can I agree with the first point but not with the second? I understand the point that you are making. Frankly, it is rather difficult to be on the bureaucratic side of the table, but I would say that we have been following these issues for some time and we have had a series of investigations. We are also looking into further allegations when we receive them. We take those forward and, where necessary, we involve the police, but what we have to do, though, is follow legal processes. If we do not have enough evidence, we cannot go beyond that.

Chris Heaton-Harris: Yes, I understand that.

Q226 Mr Bacon: Hang on. There are plainly limits to what you can do, but let's examine the question of recruitment on the street. If one had heard anecdotally that recruitment was going on on the street, wouldn't it be a relatively simple matter to check whether recruitment was indeed going on on the street? First, you would find out the streets where it was said to be happening and then you would send a few people along to wander around to see if they got approached. That is all you would have to do. If they did, you would know that people were being recruited on the street. How difficult would it be to do that?

Martin Donnelly: I believe the issue for us is whether the right people are being recruited—

Mr Bacon: Please could you answer my question?

Martin Donnelly: I am trying to answer your question.

Mr Bacon: No, you are not.

Martin Donnelly: By saying that I am not sure—

Q227 Mr Bacon: Mr Donnelly, my question is, how difficult would it be to do that?

Martin Donnelly: It would be quite difficult—

Mr Bacon: Why?

Martin Donnelly: If you tried to follow up every detail—

Q228 Mr Bacon: I didn't say that—please don't put words into my mouth and I will try not to put them into yours. Then we can use the English language, which is a masterful tool, and we can communicate with it— *[Interruption.]* Above level 5. I am simply trying to find out how difficult it would be to do that.

I didn't use the word "every"; you did. I said anecdotally, if one hears that there is such a thing as recruitment on the street, there is a method by which one might find out if that were true. How difficult would it be to do what I described?

Martin Donnelly: It would not in practice be very difficult—

Q229 Mr Bacon: Thank you. Let's pause there so that we can lock that answer. Do you think it would be outwith your remit as the accounting officer responsible for safeguarding public money to initiate some activity that led to that "in practice" not difficult activity taking place?

Martin Donnelly: I would like to take several sentences to answer that question if I may, Mr Bacon. One of them—

Q230 Mr Bacon: I would just like to know if you think it would be outside your remit.

Martin Donnelly: No, but—

Mr Bacon: Thank you. We have got that one locked as well—

Martin Donnelly: I would like to finish the point, because I do not want to mislead you.

Q231 Mr Bacon: That it wouldn't be difficult and it wouldn't be outside your remit. Please add to that if you want.

Martin Donnelly: Thank you. We have got 102 alternative providers designated. We have limited resource, which we need to use to ensure that we maintain the standards set by Ministers and Parliament for students and for protecting the taxpayer.

Mr Bacon: I appreciate that.

Martin Donnelly: Therefore, we have to use those resources in the most cost-effective way.

Mr Bacon: I understand that, too.

Martin Donnelly: I am not convinced that sending people out on to the street is necessarily the best way to do that—

Mr Bacon: You do not know that. I have been to Heathrow with the Committee to stand behind the one-way glass where HMRC use what is called an “intelligence-led” approach to try to track traffickers—

Martin Donnelly: I have been there, too.

Mr Bacon: Obviously you cannot stop every plane and every trafficker, but you can use your intelligence. That would not be that difficult—you have said so yourself.

Q232 Chair: Can I just make one final point on St Patrick’s international? They are part of a big group that is owned by a Netherlands company. They are making a lot of money out of the British taxpayer, so are they paying tax?

Martin Donnelly: I do not have any detail on their specific tax position. I have no reason to assume that they are not following the law.

Chair: That does not mean that they are paying tax.

Mr Bacon: It is almost certain that they are not, in that case.

Q233 Stephen Phillips: Do you know how much money they are making?

Martin Donnelly: How much they are receiving?

Q234 Stephen Phillips: You could probably tell us how much they are receiving; I just wondered whether anyone in DWP had managed to go through their accounts to see how much money they are making.

Chair: I bet they have gone to Netherlands. For goodness’ sake, this is education in England, mainly in London—

Stephen Phillips: Paid for by English, Welsh, Scots and Northern Irish taxpayers.

Chair: And it goes off to Netherlands.

Martin Donnelly: I gather that this is a company that works in various countries, and we have to follow the law in terms of what we can do.

Chair: You can ask them the ruddy question, do they pay their tax?

Stephen Phillips: I can assure you, Mr Donnelly, that if you don’t, we will.

Q235 Austin Mitchell: Why is it so easy for foreign students to register and go to these places when it is so difficult for other students? I have had a number of people in Grimsby who, although they have been here two or three years, are classified as foreign students and therefore have to pay higher fees. Why don’t the private colleges operate such a stringent system?

Martin Donnelly: My understanding, and I look to Mick for confirmation, is that we apply the same system across—

Q236 Austin Mitchell: But they don't. They just take anybody.

Martin Donnelly: It depends on the course, I think.

Q237 Chair: They seem to take anybody. Can I give you an example of where they take anybody? Regent college, not to be confused with Regent's university London, is another of these things. In September 2012 it recruited six HND students, all of whom dropped out. In January 2013, it enrolled 145 HND students, and only two passed their four compulsory modules—59 neither attempted nor submitted work for any unit, 86 submitted only one assignment and 25 did not pass any unit. In April 2013 another 276 enrolled—so 421 students were enrolled in January and April—and only 226 went into their second module. Again, if you read all that, for me it is a red flag. Why are they still being allowed public money to educate students?

Martin Donnelly: We got the QAA to investigate, particularly admissions and attendance, in their review this year. They have produced recommendations, and the college has an action plan to address those recommendations. The college is committed to achieving student satisfaction and completion rates of at least 80%.

Chair: Why don't you just drop them? If people misbehave, you drop them. There are 140 of these providers taking public money, and we have alluded to a number of them. I think you should have been much tougher. This is public money, Mr Donnelly, and you are the accounting officer. I cannot think of another inquiry or investigation that we have had. I am afraid that the finger points very clearly at you. You are accountable for this. You are accountable for looking after our money, and you are failing.

Have you got anything else, Chris? I have one more thing.

Q238 Chris Heaton-Harris: In this hearing we have concentrated on providers that have not been doing a very good job but, if you look at the graphs, there are providers that are doing a very good job. Have you noticed, or have you done any work to look at, what the good alternative providers are doing differently to make them go to the top of the table?

Martin Donnelly: This is an area where the QAA, who do the reviews, are able to draw on experience across the sector. One thing we desperately need is more detailed data, which we are now getting. The colleges are diverse, particularly in terms of the age of the people they are dealing with and whether they are on full maintenance grants, low incomes, and so on. Trying to ensure that we are comparing like with like is genuinely difficult, but I agree that it is really important that we do it. As we try to pull together the system of assessment for alternative providers with what HEFCE already does for HEFCE-funded institutions, it will get easier.

Q239 Chris Heaton-Harris: Does Professor Atkins have any points she wants to raise on this?

Professor Atkins: One of the things we do is to use the data coming through the Higher Education Statistics Agency, which will now be a requirement for the alternative providers from this academic year onwards. We use that data to produce benchmarks and to see which institutions need more attention and which appear to be doing absolutely fine. The point that Mr Donnelly made earlier about risk-based and proportionate goes to this point. Ideally, you want a system in which those about which you have real concerns are under considerable scrutiny and receive support, intervention and whatever is needed, and those that are doing really well have the lighter touch. There are some within the private provider sector would argue to you and us that they have demonstrated their bona fides, that their students are good, that they have excellent progression and so on, and therefore they should have a lighter touch.

Q240 Mr Jackson: Professor, what is the cumulative positive impact of this sector on the United Kingdom economy? We have seen that there has been a lack of proper analysis, in terms of entry and attainment, but what is the sector for? Why is BIS involved in this particular narrow sector? Is it benefiting the UK economy, or is it just making some dodgy, unscrupulous colleges and other institutions wealthy? Are these people just leaving? Either they are working illegally or they are going back to their own countries and doing something laudable, which is not of great benefit to us. Has anyone stopped to think about the long-term benefit of this sector?

Professor Atkins: That is, in part, a policy question. Ministers wished to open up the sector, and the argument that was and is made is that it increases choice. Not all alternative providers are for profit; the majority—51%—are not for profit. They can be close to a particular community or particular employers, and they can provide niche and specialist education. So there is an argument there.

There is an argument that Ministers make about providing a second chance, particularly for those who did not go to university at the age of 18 through to 21. Something like 77% of students in the alternative provider sector are mature. Quite a few of the providers offer, for example, faster progress and a more concentrated pattern of studying. They offer patterns of studying in the evenings and provide for part-timers, and so on.

Q241 Chair: But plenty of other colleges do that.

Professor Atkins: It is to do with choice. Opportunity is part of the motivation of the Ministers who brought it in.

Q242 Mr Jackson: This is my final point. That good work is very laudable. People from different backgrounds who did not have a traditional education want a second chance; I accept that. It is very much supported across the board, but it has been besmirched by a laissez-faire attitude to proper regulation, the frankly unscrupulous, dodgy colleges, dodgy students, people traffickers and—I agree with Mr Mitchell—the European Union free movement directive, which are all conspiring to undermine your honourable aim.

Professor Atkins: The answer that Mr Donnelly gave earlier is that we anticipated legislation early in this process, and the Government decided not to proceed with it. Our advice to an incoming Government is to legislate.

Martin Donnelly: If I can add one point, it is not that we are laissez-faire. Actually, 59 alternative providers were refused designation for the current year because our standards have been progressively tightened and we look seriously at what they are providing. Of course there are issues, but we have been strengthening our supervision and we continue to do so.

Q243 Mr Jackson: As Mr Phillips said, Mr Donnelly, you did not say from your own lips, “My fiduciary duty as the accounting officer is to safeguard the public pound at every juncture,” which you could have said. You said, “We haven’t got the legislation for that, so it is not within my direct bailiwick,” or words to that effect. I accept that you are sincere in trying to amend the situation and that you have a forward focus, but this is a pretty shocking report, particularly on the entrance criteria and the lack of proper oversight of public money. I just hope that when you next come back to this Committee we have got a much more positive story to tell.

Q244 Austin Mitchell: There is a point there for Professor Atkins. Your assumption that these organisations can provide a second chance means that there is some assumption that colleges of higher and further education and the Open University, and what remains of our adult education system, which has been badly cut back, cannot do that. Is that right? Are they inadequate?

Professor Atkins: No, they are not inadequate. The question was, what was the benefit?

Q245 Austin Mitchell: Do we need the private sector if the public sector is adequate to do the job?

Professor Atkins: The question was, what was the motivation, I think, that we had—

Austin Mitchell: Yes, and you said, “To provide a second chance.”

Professor Atkins: The motivation, as I understand from Ministers, for this policy was in part to provide more choice, both about where to study and the speeds with which you could go through study, and so. I am simply saying what I understand the ministerial position to have been on that. That does not mean to say that the existing higher education sector and further education colleges are inadequate—not in any way. What it does say is that in this economy we want more people to come through. It may well be—

Q246 Austin Mitchell: And do it cheaper.

Professor Atkins: It may well be that we need different provision and patterns of provision to achieve that.

Q247 Mr Bacon: I have got a couple of points, for information.

Mr Lavery, I think you said 26% of the debt was from EU students. Was that correct?

Mick Lavery: I think I said 26% of EU students overseas are in arrears.

Q248 Mr Bacon: I see. So you were reflecting on the 7,000 out of the 22,000. Okay, fine.

Secondly, Mr Donnelly, if you look at page nine, figure 2, you will see that in the last four years—that is to say, 2010-11 through 2013-14—the total student support paid in millions of pounds is shown in the last four figures on the right, which are 52, 123, 421 and 685. Are you with me?

Martin Donnelly: Yes.

Mr Bacon: And a total of £1.271 billion was paid out in student support over those last four years.

At the beginning of this hearing, you said that you could not answer the Chair's question about how much money was paid out that should not have been paid, and it is an amount—we do not know what it is—out of that £1.271 billion. When will you be in a position to have a reasonably accurate estimate of how much money in total was paid out that should not have been?

Martin Donnelly: I think there are three parts to that. One we know already, which is how much was wrongly paid in a fraudulent way to EU students—

Chair: No, we don't know the total fraudulent picture, Mr Donnelly. You think that is the total fraudulent picture. You are wrong.

Martin Donnelly: May I finish the other two?

The second is the issue which we touched on at the beginning, which we accept more needs to be done on, to clarify that the 20% figure of non-registration was not fraudulent. We will certainly come back to you on that. I absolutely accept that.

The third is a much more difficult one, which comes back to the points that Mr Jackson was making about how much drop-out, or whatever, is considered acceptable when you are dealing with more vulnerable students in the UK who are using this as an opportunity to get back into the HE sector.

Q249 Chair: Do you know something? I really object to that on behalf of my constituents in Barking and Dagenham. They are desperate. I really, really resent that. That is often an issue that is raised and these are people—if you are talking about British students: the typical students from Barking and Dagenham—who are desperate. It happens if they are badly taught, if they haven't got the staff there and if the qualifications aren't appropriate. That is why they drop out. It has nothing to do with their being less motivated. I really resent that remark about the drop-out rate.

Martin Donnelly: Chair, sorry. I absolutely agree with you. I don't think I said that. I certainly didn't mean it.

Chair: Yes, you did. Poor students: they'll drop out more. They only drop out more if they are badly taught.

Martin Donnelly: No. Then I would withdraw that; that was not what I meant. I meant these were people who were being given an additional opportunity, which has not been available to all of them in the past.

Q250 Stephen Phillips: Mr Donnelly, you promised to write to us, and you have identified the three bits of—let's call it misdirected public money. One we already know. The second one you can make a stab at, can't you? In relation to the drop-out rates, we know what the drop-out rate is for the ordinary institutions, those which are funded by HEFCE. You will be able, I imagine, or your economists in the Department will be able, to make some sort of assessment as to where—looking, for example, at the drop-out rates of the three best institutions, which are all privately funded: see figure 7—you are going to get to in future. So you will be able to put a number on that in short order. I don't want this letter to the Committee kicked off into the long grass. We want it the other side of Christmas, please, as to how much public money has been wasted.

Martin Donnelly: I understand that. The third point does raise some difficult challenges, due to lack of data. We can do our best, but I don't agree with your description of it.

Stephen Phillips: That is what econometrics is for, Mr Donnelly.

Q251 Mr Bacon: Mr Donnelly, while we're at it—the Chair and Mr Phillips are having another bite at my question—could I have the answer to my question, please?

Martin Donnelly: I beg your pardon, Mr Bacon. Which question?

Mr Bacon: There was only one, apart from the one about the 26%, which I addressed to Mr Lavery. It was about when you might be in a position to know how much of this £1.271 billion was inappropriately spent. You went into a long reel and jig about the three points, but you did not answer my question, which was about when.

Martin Donnelly: There is an issue about the resumption of people who drop out, which Professor Atkins might want to comment on, because it exists in the HEFCE-funded sector as well. The problem is knowing whether people who have started courses but not yet finished them within the minimum designation are likely to do so, or what economic value you put on the fact they may have started education to which they will come back. It is a bit more complicated than that, but we will do our best.

Q252 Mr Bacon: Okay, once again, when? I am asking a question about time. I do not expect that you will have got it necessarily by 5 January, which is when Parliament comes back, but I would hope that you would have a better handle on it at some point in future. My question, for the third time, is when? Are we going to have to wait until 2055 or is it going to be sooner, and if so, when?

Martin Donnelly: We will have from this year full information for HESA for all of the courses currently underway.

Q253 Mr Bacon: I'm really talking about the £1.271 billion that has already been spent. What I want to know is, of that £1.271 billion, when will you know, reasonably accurately—given that there will be some provisos around some of it, and some of it you will know more accurately than other parts of it—how much of it was spent inappropriately, in a way that was not intended by Parliament? Just to return to the Chair's very first question, when will you know?

Martin Donnelly: I think we will know much more in, probably, two to three years' time, when a full cohort has gone through.

Chair: We are coming back to this in March and we will expect you to have done considerable work to be able to answer that question before March.

Q254 Mr Bacon: One more thing: a request for you to send something to us. Could I ask you to turn to figure 6 and figure 9 on pages 16 and 21?

Martin Donnelly: The ineligible students—

Mr Bacon: That is right. There are two figures there: one is a list of 16 institutions, the other, in figure 9, is a list of a further 10 institutions. By my reckoning, in figure 9, five of the names that feature in figure 9 also feature in figure 6—and a further five, such as London Churchill College and Essex International College, SAE Institute, Resource Development International, and Kaplan Open Learning do not. Could you send us a list of the 16 institutions on page 16, the 16 institutions in figure 6, plus added on to that the further five institutions in figure 9 that are not mentioned in figure 6: in other words a total of 21 institutions? Are you with me?

Martin Donnelly: Yes.

Mr Bacon: I have mentioned the names. For each of those 21 institutions, could you send us a list and a little table showing the total amount of public money that has been paid to each institution in each of the last four years mentioned in the chart in figure 2? That is to say, financial years 2010-11 through 2013-14. Just the total amount of public money to each of those institutions in each of those four years, and a total.

Q255 Chair: I want to add to that. The other ones on page eight, in the little thing at the bottom.

Mr Bacon: Ah, yes. These were the ones I was looking for and couldn't find, because I mistakenly thought they were in a table. If you add in the ones in footnote six as well. Is that clear? Thank you.

Chair: Can I make a final comment? I do not usually do this. It disturbed me that your Secretary of State said about the expansion of private universities that you had introduced "a lot of dross"—those were his words, not mine—and that "some immigration abuse" had taken place. Again, his words not mine. But what really worried me—it is not acceptable to this Committee; and we will pursue you, Mr Donnelly, as accounting officer—was the losses that the Secretary of State was talking about more generally: "These losses crystallise in 30 to 40 years' time—when I'm well over 100. I shan't be sitting round, spending the rest of my life worrying about what happens in the year 2000-and-whatever-it-is... If you are terribly fastidious about accounting then the fact that the default rate is now estimated to be higher than it was when we introduced the scheme is something" that might worry people, "But I think in the real world, I don't think it actually affects things."

I think this Committee takes a different view. We are going to hold you to account in this Parliament on this issue, and if we do not get a satisfactory answer, we will recommend to future

colleagues on this Committee, whoever they may be, that you come back time and again until we bottom this out. It is nothing short of a scandal.