Oral evidence: The FCO's performance and finances in 2013–14, HC 605
Tuesday 6 January 2015

Ordered by the House of Commons to be published on 6 January 2015

Watch the meeting

Members present: Sir Richard Ottaway (Chair); Mr John Baron; Sir Menzies Campbell; Mike Gapes; Andrew Rosindell; Mr Frank Roy; Nadhim Zahawi

Questions 87-129

Witnesses: **Sir Vernon Ellis**, Chair, British Council, **Sir Martin Davidson KCMG**, former Chief Executive, British Council, and **Ciarán Devane**, Chief Executive, British Council, gave evidence.

Q87 Chair: I welcome members of the public to this sitting of the Foreign Affairs Committee. Our next session this afternoon is the second evidence session for the Committee's inquiry into the FCO's performance and finances. Today, the focus is on the British Council. I welcome its chairman, Sir Vernon Ellis, the departed chief executive, Sir Martin Davidson, and the new chief executive, Ciarán Devane—I welcome you to your new appointment, Mr Devane.

Sir Vernon, would you like to something by way of some opening remarks?

Sir Vernon Ellis: Thank you very much indeed, Chair, and thank you very much for accommodating us at a slightly later date than usual, which was occasioned by the delay in finalising our accounts. There are two possible advantages, one of which you have already referred to, which is that it gives us a chance to introduce Ciarán Devane, but it is also valuable in allowing Sir Martin to come with us as well, because you will be asking questions about last year. It also means that we are a bit further along with this very long process of the Triennial Review—we will probably touch on that.

If I may, I have a few words about 2014, because it was an important year for us—it was the 80th anniversary. I have to say, as I looked back at the original vision in 1934 and the organisation form established by royal charter in 1940—as a charity, as well as an NDPB, which is at arm's length, but connected and aligned—they both remain as pertinent as ever. Perhaps that is even more so in a year when there was so much tension in the world, so much lack of trust, and the work we are doing on building trust—there is good evidence of that—is perhaps ever more needed. Last year we also saw two major reports on soft power, from Lord Howell's House of Lords Committee and from the British Academy, both of which underlined the importance of soft power and the key role of the British Council. There is also the need to be aligned, but not to be interfered with, which is our basic operating model.

This year, again, we have been able to celebrate an increase in activities and reach—a quite considerable one—again at lower grant levels. I will pick out one thing for this year, which is a real step change over the next few years, and that is the provision of opportunities for our young people from the UK to gain experience through study and work abroad. Our aim is to get 100,000-plus over three years, particularly in China and India. That number could increase to 200,000 if the funding can be arranged.

Of course, 2014 was the year in which we saw the publication of a Triennial Review. We talked about that a bit last year, as we were getting into it. In summary, I can say that, first, it endorsed the importance of our work in the UK. It described it as a national asset, said that it should be retained and praised our brand, network and staff.

At the same time, issues were identified by the polling among stakeholders. They identified some areas of challenge, which indeed we recognise—we had recognised some already, but this sharpened it. I pick out three: first, the need to align with Government stakeholders, which is quite complex, because many Departments are involved, plus the devolved Governments, and we need to align all of those, even if they do not necessarily have the same interests, to say nothing of wider UK interests; secondly, to improve transparency and accountability, so that people can see clearly what is going on in this complex organisation; and, thirdly, to deal with perceptions of fair or what some people might say is unfair competition in the earned income areas and how we handle inherent conflicts of interest.

The board has discussed those issues and agreed that we should make some important changes to and improvements in our policies, practices and ways of working. In fact, we are already rapidly implementing some of those. There is now going on—almost complete—a further piece of work. The Triennial Review report recommended some structural change to improve transparency and to counter allegations of unfair competition. Options were set out and Ernst & Young was hired to examine them in more detail. Its report is finalised and has been approved by the interdepartmental working group, but is yet to be signed off. Meanwhile, we are already proceeding with a number of detailed recommendations from Ernst & Young in the three areas.

Finally, I look forward into 2015, because I think that this will be another important year. Not only will the implementation of the extensive changes require quite a lot of work, but also it is the year of the election, the spending review and possible further cuts—further cuts at a time when in our view the world has never had a greater need for the UK and what the British Council does.

The spending review will also be against a backdrop of what we might describe as mixed expectations. There are expectations that we should keep our effective presence in developed countries, in emerging countries, developing countries and conflict zone countries. There is expectation that we should grow earned income to compensate for lower grant. There is expectation in some areas of limiting or hiving off earned income, because of perceived conflicts of interest. It hardly needs to be said that these are not compatible.

Q88 Chair: Sir Vernon, thank you very much. You touched on the Triennial Review, which emphasises the values of and the value of your organisation, but also raises a lot of questions. We will probe this in a minute, but overall do you think that the review was fair?

Sir Vernon Ellis: I think a lot of time was taken to understand and the process is perhaps not one well suited to an organisation of our complexity, because it looks at individual components and says, "Can make improvement" here or there. Quite a lot of work went on to get to, I think, a fair answer. Sometimes, in our push back to try and improve the report, we might almost have been thought to be saying, "Do we believe in the things that we have to recognise?", and we do very much. So the three areas that I picked out—alignment, accountability, and dealing with perceived conflicts of interest—are important areas. It was a fair summary of the need to address those.

Q89 Chair: Do you take issue with any of it?

Sir Vernon Ellis: Not at that level, no. One could take issue with the detail, of course, in a report of that complexity. There were some 93 recommendations, and one could quibble about this or that, or one could quibble about individual matters, but then you stand back and say, "Do we agree with this report?" First, we are a valuable institution. Secondly, the institution is an arm's length charity, but connected through alignment. What we stand for in terms of brand is good—tick mark. Are there some things we need to address? Yes, there are some things we need to address.

Q90 Chair: We will come to that, but I will pick on one. About a half of the heads of missions raised a question mark about how your promotion of British culture is not very effective. Do you think that was fair?

Sir Vernon Ellis: If that was the answer, it probably was what it reflects. You have to bear in mind that people have different expectations about what the promotion of British culture is, which is why we need to align what that is. Some may be recollecting things from the past. They may even be representing countries we are not in. It seems on the face of it surprising, given the way we go round, but, on the other hand, if there is a perception that we do not address culture, then we have to address it.

I think that the area of culture is perhaps one of the more contentious areas, because there are different views about what we should do in the area of the arts and culture. There has been an increasing emphasis on building skills—mutual things—as opposed to traditional showcasing.

Q91 Chair: Have you made any decisions about how you take things forward after the review and how you implement things? Is there any change of direction?

Sir Vernon Ellis: I do not think there is a change in direction, but there is certainly a change in the way we operate. I would put this into two parts. First, Ernst and Young were asked to look at particular organisational, structural options. It is worth spending a little time on this. The original Triennial Review said there should be an examination of three options. One is an internal clarification and segregation of the way we handle earned income to make it clearer and more transparent, and to clarify the governance around it. The second approach will be to develop that further and establish commercial subsidiaries within the British Council, but formally designate commercial subsidiaries. A third approach would be to completely dissociate the earned income activities and float them off into another GovCo, with no connection with the British Council whatever.

The board's considered view is that many of the changes recommended under the first of these are actually valuable and necessary. They will improve our transparency and our understanding of the way income relates to costs, our economics and our governance, and those clearer views, linked with the way we work, will address conflicts of interest, both real and perceived, quite considerably. They include things like fair competition policies and independent appeals procedures if people have complaints and so on. We need to do more of that.

Secondly, there is a continuum between that and establishing commercial subsidiaries. The trustees are in favour of our doing whatever is necessary along that spectrum, which is cost-effective and proportionate to address stakeholder concerns. When we reach the first stage, which will be quite a lengthy stage of implementation of the first part, we will look to see whether we need to do more in terms of actual formal separation within commercial subsidiaries.

My own belief is that we will have achieved a lot if we link it with the other thing. If we are more ambitious and more generous and inclusive in bringing in partners, and more ambitious in what we want to do for the UK in terms of our mission, we will naturally bring in more partners of all sorts to tackle the enormous opportunities that there are around education in English in particular.

On the third option, though, which is complete dissociation, the trustees agree very much with Ernst and Young, who concluded that the complete separation option would not meet the conclusions of the Triennial Review—that is, that there is a continuing need for a strong UK cultural organisation and for the British Council in a form and with an economics which would be able to supply this need. This option would actually mean the end of the British Council as we know it, in our view.

Q92 Sir Menzies Campbell: Can I go back to the question of culture and arts? Have you drilled down to see exactly what the heads of mission were concerned about? Is it about quality of performance or range of activity? That is obviously an important part of making the case for the United Kingdom. For example, the Goethe-Institut was mentioned. Has anyone done any comparison between what we do and what Goethe does?

Sir Vernon Ellis: Indeed, we collaborate with the Goethe-Institut sometimes—for example, in India. I think it is mostly a question of expectation. There may be some variation in quality, and there is certainly variation in what we can afford.

Q93 Sir Menzies Campbell: That is a very interesting point. Do you think Goethe is more generously funded than the British Council?

Sir Vernon Ellis: Considerably.

Q94 Sir Menzies Campbell: And what about the Institut Français?

Sir Vernon Ellis: Considerably.

Sir Menzies Campbell: Well, perhaps that is my answer.

Sir Martin Davidson: The Goethe-Institut has about double the Government grant the British Council has, and the Alliance Française is considerably larger.

Sir Vernon Ellis: The other thing is that the Goethe has about double the revenues from Government grant, but with a much more limited focus: it is language and culture only. The education component—higher education—is done by another agency, the DAAD. So the amount the Goethe has to spend is considerably more. I think this behind some of the issues, particularly in smaller countries, where we would like to do more, frankly, but the funds are not there. Again, we can improve that. We have improved our partnerships, with new ways of doing things, but we also want to do more. We want to help build sustainable ecosystems for the arts in many of the countries we operate in, not just to have traditional showcasing.

Q95 Sir Menzies Campbell: Do you get co-operation from the national companies—Scottish Opera, English National Opera? Are companies of that kind willing to be co-operative?

Sir Martin Davidson: Yes, and as part of the GREAT campaign, one of the initiatives we have established is a forward-looking diary, so that companies can see where other companies are intending to tour overseas, and other organisations can also align with that. One of the problems is often that many of these companies need a considerable lead time for international touring. Part of the purpose of the forward-looking diary, which we are collaborating with DCMS and visitlondon on, is to ensure that we understand what some of the expectations and ambitions are, so that we can then align other issues behind that.

Sir Vernon Ellis: A good example of the partnership we have now is the Transform programme with Brazil, which is over a four-year period. The Tate, the V and A, and the Royal Ballet are there, as well as individual artists like Brian Eno, Antony Gormley and Tracey Emin. Over the first six months, we reckon that about 932,000 visitors have experienced Transform activities across 36 projects across all art forms. So we are making a big impact through those kinds of large co-operative ventures.

Q96 Mr Roy: From 2010 to 2016, income from commercial activity is projected to increase by 66%. What has changed in the British Council that it has been able to achieve such a growth rate?

Sir Martin Davidson: There are a number of aspects that have changed. Part of it is a greater attention to, and focus on, the opportunities for growth of income. If I take, for example, the examinations, which have been the most successful growth area, we have focused increasingly on creating a much more global exams operation, rather than a large number of small—almost cottage-industry—operations. That, for example, has enabled us in a country like Pakistan to work with a large distributor to distribute the exam papers, rather than having people carrying those around in suitcases. We are working on putting in IT systems which allow people to register for exams. So it is becoming a much more effective commercial operation, meeting the expectations that people have. For example, in Hong Kong, on the English language side, we recognise that people no longer necessarily want to turn up at 7 o'clock on a Tuesday and a Thursday evening to take a class. We have now put in place a system that allows a student to sign up for a certain number of classes. They are able to book the time they want to take those classes with 24 hours' notice, all online. It is about modernising our systems and becoming much more focused on what the student or the purchaser wants, rather than what we want to offer.

Q97 Mr Roy: Still on finance, the split between the FCO funding and the earned income is expected to be 16%/84% in 2015-16. Bear in mind that in 2010-11, it was 27%/73%, so there was an 11% either way—a 22%—change; is there a limit on how much more of your income can come from commercial activity, bearing in mind that it is expected to go up to 84%?

Sir Martin Davidson: My principal concern is that, especially with the move of more of our grant income into ODA-denominated activity, the amount of money that we have available for the developed world is decreasing rapidly. It has gone from around £76 million to £46 million over the period of the spending review. The problem for us is that, if we are not extremely careful, we become seen simply as a commercial language or education provider, not a cultural relations organisation. Absolutely at the heart of the organisation's purpose is that those are important aspects of the broader cultural relationship. That is one of the reasons that we took the decision earlier this year that 10% of our surpluses would be moved into supporting our arts work around the world. Increasingly, we will need to push more of our surpluses from commercial activities into supporting the broader educational and cultural relationships.

We are concerned that if the next spending review, which is going to be difficult as we all recognise, pushes yet more of the resource into ODA countries, there is a real danger that it will be extremely difficult for us to maintain a fully fledged cultural relations programme.

Q98 Mr Roy: Has the change in the commercialisation, for example, had an effect on the nature or purpose of the British Council?

Sir Martin Davidson: At the moment, it does not. The danger is that if we do not have resources to do the arts work and the broader English in the public education system work—if we become solely an organisation that is about teaching English or giving examinations—we will have lost our way. We are very conscious of that and, at the moment, we are ensuring that that is not happening. However, the danger is that if the grant, particularly the grant for the developed world, drops further, it will be extremely difficult to maintain that wider—

Sir Vernon Ellis: Perhaps I can add a couple of points. One is that the connection between the "commercial" and the rest is very important. For example, I was in Japan recently. We won some work, in partnership with the Government there, to completely transform teaching English in Japan. It is very important because they are worried about their capability in the English language. This programme will reach every secondary school teacher in Japan; it is a massive programme. We would not be able to do that without drawing on some of the skills that we have developed partly in commercial. If that was completely separate, we would not be able to do that.

The second point about finance—I may have pointed this out before—is that it is sometimes thought that if we had our grant reduced by £50 million, we would only have to increase our earned activities by £50 million to cope with that cut. Of course, it is nothing like as simple as that because—let's say there was a 5% margin—to replace a £50 million grant would require an increase in earned income of £1 billion. That certainly would transform the organisation.

Chair: Sir Vernon, I am terribly sorry, you see democracy at work here, but it interrupts our session. We will adjourn for 10 minutes.

Sitting suspended for a Division in the House.

On resuming—

Chair: I apologise for the interruption. I think that Mr Roy was leading the questions.

Q99 Mr Roy: Sir Vernon, in your foreword to the annual report, you said that the British Council has had to grow to stand still. Surely, if earned income has increased by nearly 40% in the last four years, that means that the British Council must not only have stood still but reached out an awful lot further. Surely this is more than just standing still.

Sir Vernon Ellis: I do not have that quote. What did it say?

Q100 Mr Roy: It says: "The British Council has had to grow in order to stand still and stay open in the range of countries the UK has made commitment to."

Sir Vernon Ellis: A part of this is that if our grant is reducing—this goes back to the point I made—you have to make a disproportionate growth in earned income to compensate for that lower growth. In order to just keep the presence we have, particularly in countries where there are not sources of income, we have to grow other sources of income to compensate. As Sir Martin has said, our non-ODA grant has gone down almost 50% over that period.

Ciarán Devane: If I can give a specific example—the Gulf states are not ODA, yet they are very important to the United Kingdom. Unless we can find a way to grow earned income elsewhere quickly, there is a risk to our ability to provide cultural relations in some very critical countries. If that 20:1 ratio—

Q101 Mr Roy: I get that, but what I am trying to get at is that if you had an increase of 39% in the last four years, why have you only just stood still?

Sir Vernon Ellis: What I meant was that in order to keep the range of services we have—obviously in some areas, we have done a lot more than that and we have grown. I would like to point out that the main purpose of teaching English and conducting exams is not just earned income. They themselves are cultural relations activities. If you do 500 IELTS exams in China—I have seen that in operation—it does something for cultural relations. It says something about trust in Britain. It stands for Britain as well. If you analyse that too carefully, it is probably not true because we have not stood still; of course we haven't. That expansion of our work in English exams around the world is, itself, a bigger impact on the world and does build trust. We can show that.

Mr Roy: I'll quit while I'm ahead.

Q102 Mr Baron: Sir Vernon, you quite rightly raised in your introduction the importance of soft power and where the British Council lies within that concept. We all know, in this increasingly pervasive information age, that winning the story is going to be just as important as winning the conflict or the war. This is something that we will perhaps come on to later, but when talking about income generation, do you think there is a danger that as the earned income from commercial activities increases, you are at the same time, at least to a certain extent, diluting your soft power capability and reach or efficacy as an organisation? If so, can you quantify that danger and your concerns?

Sir Vernon Ellis: I think that it depends on your attitude. If you were saying, "We want to maximise our earned income," just from the point of view of earning income, there is that danger. Of course, as was alluded to earlier, if the proportion grows out of all proportion, that danger would increase, but I think that it is much less. We have really worked hard on this over the last few years and said that it is not our ambition to just grow earned income like mad everywhere. It is our ambition to fill the need. There are approximately 1.6 billion people learning English around the world. If we can help to tackle that, with not only our own resources but those of partners as well, that will help our cultural relations. It will say something about Britain and increase links to Britain, with more people teaching English. That is part of our core mission. English has been part of our mission since we were established. We have to think about the needs of those people, the way we can fulfil it through our mission and the result that has in links with Britain. If we think about it as, "We won't appoint a really commercial minded person to manage a commercial subsidiary to go and beat the hell out of the market," you get to a different kind of organisation.

Sir Martin Davidson: It is one of the reasons why, institutionally, we feel that the idea of a complete separation of the commercial from the other activities would be seriously detrimental to the organisation. A truly commercially minded organisation would not be undertaking examinations in Bangladesh or English teaching in parts of sub-Saharan Africa. It would focus its effort on the major commercially successful parts of the operation—the Spains, the Hong Kongs, the Singapores. If that were the case, we would be a much poorer organisation as a result.

Ciarán Devane: Trying to give a specific—partly preparing for arriving in the job yesterday, I went to see the British Council in Jordan. One of the programmes they are running is with Syrian refugees. They are focusing on two groups. One is teenagers transferring into the Jordanian system who start English later and, if they don't pick it up very quickly, will be left behind, but, more specifically, teenagers who were about to leave school and go to a job or university to give them an experience of English that will, hopefully, help them integrate. Also, from a security point of view, who is most likely to be disenfranchised, angry and to pick up a gun? It is the angry teenager who has lost his or her place at university or the job they were about to go into.

That juxtaposition of a strategic goal of the United Kingdom with what is a language teaching commercial thing, but doing it in a way that keeps that focus—if you were doing it purely to maximise the bottom line of the British Council, you would never do it. From a UK and Foreign Office point of view, it is absolutely critical.

Sir Vernon Ellis: Arguably, some of the things that are most inspiring and one wants to talk about is work that we are doing in the school of religious studies at AUB CASAR university on English for religious purposes. Working with the Sudanese army and with the Palestinians in the West Bank, are the sorts of thing that are at the heart of what we are about.

Q103 Mr Baron: Briefly then, what you are saying is that, provided you try to maintain the balance and the ethos, there is no reason why the commercial activity and earned income should not keep growing at a reasonable pace.

Sir Vernon Ellis: Ethos is a good word.

Mike Gapes: Before I come on to another question, can I just take you up on that point? From what you are saying, there is, in effect, cross-subsidisation of what you are gaining commercially in terms of income which is then used for public benefit.

Sir Vernon Ellis: Indeed.

Q104 Mike Gapes: You don't explicitly say that though, do you? You might say it in so many words, but I think you have a story to tell that you are not putting in those terms. Is that because of some charity legal reason?

Sir Martin Davidson: I don't think it is a particularly charitable legal reason. We have been cautious about being very explicit about transfers of resource from, say, a wealthy country where we are earning significant sums of money to a poorer country where we are having to put effort in. Part of the response to the Triennial Review has been to recognise that we need a much greater level of transparency around these areas, so we are looking at how the account will change the way in which we reflect these movements of resource across the organisation. As you say, it is an important story for us to be able to tell more clearly.

Q105 Mike Gapes: Secondly, I have noticed over the years—and at one point I was concerned about it—that the branding of the British Council was not as prominent as I thought it ought to be in certain contexts. Before the Olympic games there was very much a focus on Olympic symbolism. Then there is the GREAT campaign, and I see the strapline is there.

In terms of your future role internationally and what you are getting in commercially through exams or the English language teaching or whatever, will you agree what image or branding you put out with the FCO, or is that very much your own decision?

Sir Martin Davidson: It is absolutely critical that we maintain the branding of the British Council. People come to us because of the trust which they have in the UK, the reputation that we have for our language teaching, our education system more widely; and of course our involvement in this is about also bolstering that trust in the UK, so the combination is a very important link. Certainly in my period I felt that the continuing recognition of and promotion of ourselves as a British organisation to bring value for Britain has been absolutely at the heart of what we do.

My recommendation to my successor is that we should continue to do so. I think it is critically important that we maintain our branding as British. There are certainly some circumstances where we perhaps downplay that, so, for example, in Iran at the moment we are supporting a number of British organisations being involved in Iran. I do not think it is helpful for us to put the British Council's logo on that, because we are not a particularly trusted organisation in Iran at the moment, but the number of such circumstances is extremely small. I believe very strongly that the continuing recognition of the organisation as a British organisation representing the very best of Britain, and providing links back to this country, is at the heart of what we do.

Ciarán Devane: One of the pieces of work I think I will be picking up is working very closely with the Foreign Office on saying what is it we would like people to be thinking of us in 10 years' time in the Middle East, or wherever it is: not necessarily the identity bit of the brand but the attribute bit of the brand. Is it about education, is it about language, or is it about trade?

Q106 Mike Gapes: The Triennial Review said that you needed to operate more transparently in the education sector and also promote other providers of goods and services more inclusively and effectively. There has been a long-standing complaint. I can remember nearly 20 years ago on this Committee: some other teaching English as a foreign language—as a second language—organisations were complaining that there was unfair competition from the British Council. How do you answer that criticism that there are areas of conflict with other UK providers and that they are crowded out because of your inherent advantage because of the brand and the association with the Government?

Sir Vernon Ellis: It is interesting, because in the English area—the Ernst & Young report examines this—there is so much white space out there that really we do not crowd them out at all, because there are huge opportunities for all in that area. I think a more contentious space is some of the education providers, and where we can do more—and in some cases, to be honest, in some countries we have been limited in our ambition; we have picked up things for ourselves, and have perhaps not always brought in other people as we might have done—we have to be frank about that. That has happened in some countries at some times; but I think that increasingly there are many more good stories. You might want to talk about Kazakhstan, for example.

Sir Martin Davidson: We are aware of the challenges, and we have had the conversation before with the Committee about the challenge from some of the other providers. I certainly would not want to pretend there are no examples of poor practice in the organisation. There are, and we will put in place means to deal with those, which I will come back to; but we have some extremely good examples of where we are working very closely with other providers, now.

For example, in Saudi Arabia, working with the Centre for British Teachers, who have traditionally been one of the critics of this organisation, we have just won a programme for quality assurance in the education system. We are going in behind CfBT to support their taking that programme. In the case of Nigeria we have also gone in behind Cambridge Education systems to support them in a programme which they have just won on schools administration in Nigeria. There are a number of examples of where we are putting in place significant efforts to support other British providers.

We also have put in place a service for international education marketing, which is now live in 51 countries, supporting British education organisations wanting to market into those countries. Most recently, for example, in education exhibitions around the world, we had more than 240,000 people attending various education exhibitions working with these organisations. In the case of Mexico, where the Government has recently decided that English will be the first foreign language, we worked earlier this year to put together a conference for UK education providers, at which 1,100 Mexican administrators from all 32 states came together with those providers. There are a number of examples where we are putting real effort into supporting other organisations.

Where there are complaints, one of the problems has been that we are not seen as treating them seriously or effectively. As part, again, of our response to the Triennial Review, we are putting in place a much more effective complaints process: we are taking it outside the organisation so that it is not us drawing conclusions about our own activities; rather, we are asking another organisation to act as the processor of the complaint. Where that complaint is upheld, we will put in place means of redress. We recognise that there is a lack of trust, particularly among a number of the smaller education suppliers, we recognise that we need to deal with that, and we are putting in place substantial means to try to do so.

Q107 Mike Gapes: Some people complain you have an unfair pricing and promotion approach. Is that a complaint that could be accepted in any circumstances?

Sir Martin Davidson: I don't think it is. We do not aggressively price or offer lower prices to access a market. It goes back to this issue around the transparency of our accounts. Because people are unable to see clearly how the pricing works in a particular environment, it leads to suspicion that we are somehow subsidising. Part of what we are trying to do in looking at the way we present our accounts is to become much more transparent so that people are able to see much more clearly the pricing basis on which the organisation operates.

Sir Vernon Ellis: But on the specific pricing, investigations, including by Ernst & Young, can't find any evidence of what you mentioned, except in—

Q108 Mike Gapes: Is that all public yet? You said it is waiting to be published.

Sir Vernon Ellis: No, but it will be. In the English language area, we generally have the premium prices.

Chair: I am warned that there is yet another vote coming. It will be only the second time in this Parliament that we have had three votes on a Tuesday afternoon, but we persevere. I would be grateful if everyone could keep their questions, and perhaps the answers, focused so that we can get to the finishing line.

Q109 Nadhim Zahawi: You mentioned future reports being more transparent. The review team thought that the financial information shared with them lacked a clear overall picture of costs and potential benefits. They believed that "strategic decision making and Board and FCO oversight would benefit from clearer presentation of financial data". They made specific recommendations, including "consistently disaggregating exam and English revenues", "improving visibility of financial flows between surplus generation and reallocation to activities that might otherwise have been grant funded" and "clear reconciliation of differences between management and financial accounts". On those specifics, are we going to see future reports making it clear how you are raising your income and spending it?

Sir Vernon Ellis: The short answer is yes.

Q110 Nadhim Zahawi: Great. So, what was your total surplus from commercial activity this year? How did you invest that surplus?

Sir Martin Davidson: I will need to write to you with exact details, but the total surplus in the year in question is approximately £70 million, of which something like £50 million has gone into investment in two particular areas. Part of it is investment in continued growth of the business, particularly the examinations. The other part has gone into the change programmes, particularly the development of a more modern financial system, the ability to operate online so that people can sign up to examinations and to the English language side, and modernisation of our IT.

Nadhim Zahawi: If you can write to us about that, I would be grateful. Thank you very much.

Q111 Andrew Rosindell: Sir Martin, thank you for the annual report, which we are grateful for, but why was there such a delay in getting it out this year?

Sir Martin Davidson: The reason for the delay was that the NAO, in auditing our accounts, identified an area around our accruals which they were not satisfied with. In discussion with the NAO, we decided that we needed to do a full review of the way in which the organisation was managing our accruals—in other words, the allocation of costs across year end, in particular—and the way in which we manage our debtors. That was a significant piece of work to be done. We completed it in the middle of November. It was then further audited by the NAO, and I am pleased to say that the NAO have been satisfied with the work that has been done. The net result was that there was a £3 million transfer from cost to income, as part of that exercise.

Q112 Andrew Rosindell: Thank you. You referred to branding earlier. It is pleasing to see that there is half a Union Jack on the report, using the Britain is GREAT symbol, but if we want to make it distinctly British, do you not think that the British Council perhaps ought to rebrand itself in a way that shows it is clearly British and not just an organisation providing services? I may have raised this subject with you on previous occasions.

Sir Martin Davidson: The brand of the British Council is very, very well known overseas. I think we need to be cautious about a rebranding in terms of logos and so on. We are very proud of being British. We make it absolutely clear. We have never shortened our name, for example, to BC or whatever, as other organisations have done. We have always been known fully as the British Council; we always present ourselves as such. I think a change of brand is something you need to do with considerable care, but I would emphasise that the nature of this organisation as a British organisation representing the very best of British is absolutely at the core of our overall brand and what people expect from us.

Q113 Andrew Rosindell: Following our correspondence last year about the Commonwealth publication that you produced, do we now have in place a system to make sure that some of the errors that were in that booklet do not occur again—the Falklands being the same colour as Argentina, Gibraltar being missed out and so on? That is really important. If we are a British brand, it is important we don’t miss parts of the British family.

Sir Martin Davidson: In our defence, and as I wrote to you, we did take the particular map from the Commonwealth Secretariat. We will check the material we get from the Commonwealth Secretariat more carefully in the future.

Q114 Chair: On the question of staffing levels, the number of staff working in managerial and admin positions increased by 32% and 17% in 2011-12 and the wage bill increased by 21% during the period. Was the scale of this increase foreseen a couple of years ago, and is the money coming from an increase in commercial activities?

Sir Martin Davidson: It is a slightly complex answer, Chairman. The bulk of the growth within the UK is through our bringing in people to manage the change programme—the IT, the new financial systems and so on—where we obviously do not want to employ people full time. In the past, we employed people on short-term consultant contracts. We decided that was inappropriate and have therefore moved those individuals on to full-time fixed-term contracts, which means that they come into the numbers. There are about 170 people, I understand, involved in that context. That is one of the principal reasons for the shift in the UK numbers.

The numbers overseas are largely a result of three key things.

Chair: Apologies: I am suspending the sitting for 10 minutes.

Sitting suspended for a Division in the House.

On resuming—

Q115 Chair: Before we were rudely interrupted, the question was about wage costs. Had you finished your answer?

Sir Martin Davidson: I was just going to go on, if I may, to talk about the numbers overseas, which again have shown a sharp increase in senior managers. That is around three key areas. One has been a decision to move to have more professional staff. That, necessarily, means that they are more senior and better paid. In particular, we have made significant investment in additional staff in the areas of education and arts activity.

The second area is that, as the Committee is aware, one of the things that we have been involved in has been the establishment of more robust tax and status arrangements in a number of a countries. In some of those countries—for example, China, Ukraine and Thailand—that has meant establishing separate, stand-alone entities, registered under local law and we have had to put in place more senior staff to manage those.

The third area is that, as our income-generating activities grow in particular in the area of exams, but also in English language, we are again putting in more senior staff to manage the financial environment in which we are operating in particular. Those are the principal reasons for the increases overseas.

Q116 Chair: Excellent. Thank you. Your aim is to keep your admin costs to 14%. Are you on target for that?

Sir Martin Davidson: Yes, we are. We are reducing our admin costs by 1% year on year. That is against a background of continued and significant growth in the organisation as a whole.

Q117 Chair: Before I hand over to John Baron, can I go back to a question that Andrew Rosindell was asking on his theme? You are going to close one or two offices overseas. What criteria are you using to assess that?

Sir Martin Davidson: You will forgive me if I do not give exact details, because they are not yet public, and we need to discuss with host Governments. For the offices we are looking at, the criteria are, first of all, whether we are able to sustain an effective presence with the decreasing resource we have available to us, particularly in the developed world—the countries we are looking at are in the developed world. My concern has been that we have a number of operations where so much of the resource is now going into simply being there, rather than doing something that is really valuable, and that it is a better use of that resource to move that money into activity managed and supported by neighbouring offices, rather than into the maintenance of a physical presence on the ground that has relatively little impact against cost. Those are the principal reasons for making those changes. I expect that as we become more effective, particularly in the digital activity we are involved in, there will be further pressure on a number of offices to move in that direction.

The other aspect of this is recognising that some of the countries we are talking about have very extensive links with the UK and are very significant partners for the UK, so there is a large number of other organisations involved there. We always have to ask the question, "Are we adding sufficient added value against the cost, compared with what other organisations are able to do?"

Sir Vernon Ellis: Another characteristic would be that quite often a large proportion of the population speaks English quite well and it is taught well at school. That has two effects: first, there is less need to teach English; and, secondly, there are obviously fewer income opportunities to subsidise the grant.

Chair: You are becoming victims of your own success.

Q118 Mr Baron: I have two questions. First, if I may return to the theme of soft power, you talked about income balance and generation within the organisation, but I would like to tease this out a little more—from you in particular, Sir Vernon and Sir Martin, because you may have an element of greater freedom to discuss this. What is your view of the Government's approach generally on reducing the budget of the British Council, given the longer term challenges that soft power has to face in this unpredictable world? What are you happy to say?

Sir Vernon Ellis: I will start—if anything, to give us some time to think about it and say a little more. I think you are absolutely right. I came from outside—from the commercial world—so this was not my world. Over the four years to date, I have been genuinely impressed by the long-term return for Britain for what we do. Of course we can always seek areas of improvement, but let us just take some of the areas that we have expanded in, in what one might call the society area, which is now much more focused on four main areas: social enterprise; strengthening civil society; the rule of law; and the role of women. Those are crucial areas.

Across Asia we have trained something like 7,000 people in social enterprise, helping those nations to lead, and also bringing something from Britain that we know about and is respected. That builds a long-term return. In northern Nigeria, an area that as we know is devastated by the effects of Boko Haram and so on, we are working right at the front line, strengthening civil society, the rule of law and access to justice, and providing a better environment to take children to school. There are two major programmes there in Nigeria. I am sure they will make a contribution to that society, but they will also make a contribution to those people's view of Britain. If we help take a child to school in Pakistan, which we are doing in large numbers—particularly girls—and do the same in northern Nigeria, that is investing for the future; it must have a return. If we are limited in what we can do by further cuts, that will be a tragedy.

Sir Martin Davidson: I think that we fail too often to understand that we are operating in a competitive environment. There are very strong alternative and extremely destructive voices looking to create influence among young people around the world. The most obvious ones are in the Middle East. The work that the British Council is doing in Lebanon, for example, providing opportunity for young Syrian refugees who have come from an Arabic-speaking educational environment to learn English and French in order to take part in the Lebanese education system, is absolutely crucial.

The work that we are doing in Egypt with the Anna Lindh Foundation and across north Africa on Young Arab Voices gives young people the opportunity to take part in the development of their own communities and to have a voice in their communities. Those are extremely important counters to the alternative voices that are strong and well managed in this space.

There are also others—take China, for example. China is investing massively in seeking to grow its soft power influence around the world. I can't give you a well-founded number, but my private belief is that China is spending something like $3 billion a year on soft power. Compare that with the £170 million that this organisation gives. Germany invests something like €1 billion a year in this space. Korea is putting massive new resource into it.

This is a very contested area in which lots of people want to have a voice. I believe the House of Lords report and the British Academy report suggested that we as a country have a remarkable depth of soft power capacity, which we massively undervalue and at the moment are not funding adequately to get the most benefit.

Q119 Mr Baron: So, in short, we are being short-sighted.

Sir Martin Davidson: I think inevitably, particularly over the past six or seven years, we have focused on the short-term problems and issues that we have, for obvious reasons. We all understand and recognise those. The work that the British Council does is for the long term, and the long-term prosperity and security of this country depend on our being able to do that more effectively.

Q120 Mr Baron: Finally, may I come back to a more mundane issue? May I raise with you the early departure of the chief financial officer, which has caused a few ripples? Correct me if I am wrong, but the figures in front of me suggest that Mr Sarkar received a salary of around £240,000 from the British Council in the 2013-14 financial year before his departure. No reason has been given for that departure. In the case of the replacement, Mr Kinsella, a payment of nearly £400,000 was made to the agency, and that was not a full-time salary. Can you tell us why Mr Sarkar left and why Mr Kinsella got paid so much? Do you think the Council planned effectively for the departure of the previous financial director?

Sir Martin Davidson: The reason why Mr Sarkar left the British Council was that we decided that, as the organisation becomes much more complex and as we move into a group structure, we needed to take the role he filled, which was broadly based, and become more focused on a chief financial officer with very strong emphasis on the financial management of the organisation. That was not a role that Mr Sarkar wished to undertake. He had a broader role that he wanted to continue with. In effect, the job was changing around and underneath him. We agreed together that he would leave the organisation. The compensation he received, which was agreed with the Cabinet Office, was significantly less than that; it was, in effect, a month's salary—

Q121 Mr Baron: May I just pick that up? It was a part-time role played by Mr Kinsella—one fully understands that—but the total payments to the agency were the equivalent of a full-time salary of £380,000 to £385,000, according to the figures that I have in front of me. That is quite a jump.

Sir Martin Davidson: It is. It was a decision that we made because, particularly with the timing, we had to have an interim—and a well-established and highly professional interim—in order to manage the organisation across the year end. The salary that we were required to pay was not at the top end, or anything like it, of an interim financial manager of Mr Kinsella's experience and weight. I made the decision that it was necessary for us to have someone of that background to be able to secure the finances of the organisation.

Q122 Mr Baron: And at such short notice, presumably.

Sir Martin Davidson: It was at short notice, and it was clear to me that we were going to need to recruit a replacement for Mr Sarkar externally and that that would take about six months, which indeed was the length of time it took.

Mr Baron: Okay. Thank you very much.

Q123 Sir Menzies Campbell: May I go back to Nigeria, which was mentioned a moment or two ago? Teaching in Nigeria is rather a hazardous occupation, as we know from the fact that all those pupils were abducted. I would not expect you to give details, but have you had to take particular steps with regard to the security of the operations of the British Council teaching a language that, to some people at least in Nigeria, is anathema?

Sir Martin Davidson: The British Council does not have a direct teaching operation in Nigeria. We of course are very conscious of the security concerns, in particular with the two programmes that Sir Vernon mentioned, where we are sending staff into northern Nigeria. We have looked very carefully, and continue to do so, at the security of those staff when travelling, but it is vitally important—part of what the organisation does is to deliver these programmes that provide opportunities for education for young people, involvement in their community and engagement in law reform in northern Nigeria—that those staff are on the ground. I have to say that the courage of British Council staff and their dedication in undertaking this work in extremely difficult circumstances are—

Q124 Sir Menzies Campbell: Will you give a broad indication of the sort of activities in these programmes?

Sir Vernon Ellis: For example, on the schools front, there is another project that I have mentioned already as well, called the girls' enrolment programme, which we are doing in collaboration with the Oando Foundation. Over the next three years, we aim to help to enrol 200,000 girls in primary schools and to support the transition of at least 21,000 girls at risk of dropping out of education at a junior secondary school. That will work alongside existing DFID projects. They are terribly important and, yes, right on the front line.

Sir Menzies Campbell: I understand the importance, I was just interested to know—

Sir Vernon Ellis: Absolutely. In parts of Pakistan we do quite a lot of similar work, sometimes in areas to which we simply cannot go. We work in conjunction with local partners, quite extensively in parts of Pakistan.

Q125 Sir Menzies Campbell: Presumably you consult the Foreign Office on whether it is sensible and safe to go.

Sir Vernon Ellis: Absolutely.

Sir Martin Davidson: Absolutely.

Q126 Mike Gapes: May I just clarify something? I am looking at the previous discussion about the delay in producing the annual report, which you told us was linked to the National Audit Office saying that you needed to provide more information to do with this issue of accruals. Is that in any way connected with this issue about changing your financial structure?

Sir Martin Davidson: No, it is not. It is about the way in which our offices overseas, particularly as they grow and have much larger levels of income, account for expenditure and income across the year end. Much of the issue is about whether it falls into this financial year or into the next one. Errors were being made in—

Q127 Mike Gapes: So those were not issues that your finance officer would have been focusing on.

Sir Martin Davidson: They were areas that I think came to light as part of the end-of-year processes.

Q128 Mike Gapes: You are talking about the end of the financial year, which would have been March 2014.

Sir Martin Davidson: Correct, yes.

Q129 Mike Gapes: And your change of personnel took place six months before that.

Sir Martin Davidson: Three months before that, in January.

Mike Gapes: Okay. Thank you.

Sir Vernon Ellis: What one might say is that this restructuring is part of recognising the complexity and size of our international operations. There needs to be a much more joined-up and strong financial function, with centralised systems and regional control, as well as the local operations. That is a major task ahead for the new chief financial officer.

Chair: That completes our questions. We are running a bit behind schedule, but I thank you all very much for coming in. This is probably the last occasion on which you will formally appear before us in this Parliament, so may I thank you for the continuous and sustained advice that you have given us and for your willingness to appear as witnesses? We have been constructive critics of the British Council, but we remain among its strongest supporters. I wish the organisation well, and in particular, Sir Martin, as you leave, I thank you for everything that you have done on behalf of the Committee. I wish you and your successor well, and, Sir Vernon, while you continue in the chair, we wish you well, too.

Sir Vernon Ellis: Thank you very much, Chair, and thank you for your support. It is appreciated.