HOUSE OF COMMONS

Business, Innovation and Skills Committee

Oral evidence: Work of the department and mid-year review, HC 934-i

Wednesday 25 February 2015

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Written evidence from witnesses:

- Rt Hon Vince Cable MP, Secretary of State,
- Martin Donnelly, Permanent Secretary, and
- Howard Orme, Director General, Finance and Commercial, Department for Business, Innovation and Skills

Watch the meeting

Members present: Mr Adrian Bailey (Chair); Mr William Bain; Paul Blomfield; Katy Clark; Mike Crockart; Caroline Dinenage; Ann McKechin; Mr Robin Walker.

Questions 1-88

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

Q1 Chair: Good morning, Minister. Can I welcome you to what will probably be our valedictory session, notwithstanding any sudden events that may take us by surprise? Just before I start with the questioning, can I just put on record our appreciation of both your willingness to attend the Committee and that of your other Ministers in the Department and, indeed, officials when appropriate? We have not always seen eye to eye, but I would not question your willingness to come and respond to our inquiries, and we are duly appreciative of that. Just before I start with my questions, if you could just introduce yourselves for voice-transcription purposes.

Vince Cable: I am Vince Cable. I am Secretary of State for Business, Innovation and Skills.

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

Howard Orme: I am Howard Orme. I am the Director General for Finance and Commercial at BIS.

Q2 Chair: Thanks very much. We are addressing the mid-year review, and it does list a number of key achievements for 2014-15. What is the main thing you would like to see the Department achieve before the next spending review?

Vince Cable: The next spending review is imminent, so there is not a great deal of opportunity.

Chair: No. It gives you an opportunity to—

Vince Cable: Yes, indeed. Essentially, it is consolidating the big overarching framework that we have established, which is the industrial strategy and the work we have done in partnership with business on the key sectors of the economy. Within that, there are several specific areas where we have made a massive difference. One is in training, through the expansion and improvement of apprenticeships. The next is in innovation, with the establishment of the Catapult network. The other is in relation to business finance, with the work of the Business Bank. I would like to see all of those extended and strengthened.

Q3 Chair: What do you think the biggest challenge is?

Vince Cable: You have hinted at it already. Within a few months, the next Government, whoever they are, are going to be faced with the continuing issues around the deficit. The big challenge for the Department will be making the case in Government for the fact that many of the things that we do, particularly in areas like apprenticeships and innovation, have extraordinarily high returns to the economy but they are competing with other claims on public finance. The biggest challenge will be to make that case.

Q4 Chair: I think we can say that whilst we may sometimes disagree on outcomes and occasionally policies as well, in that respect the Committee will be totally in support and agreement with you, and it will do its best within the remit of its work to pursue that. Can I just come on to an element of the report, the staff survey? This is a matter for concern. Although it does demonstrate a marginal improvement from last year in terms of morale, measured by the different criteria in the survey—if I can quote one part of it—only 50% of the respondents in the staff survey believe that "the actions of senior managers are consistent with the Department's values". That is not exactly a great endorsement by the staff. How would you describe the Department's values? Why do you think so many of the staff believe the behaviour is inconsistent with them?

Vince Cable: I will ask the Permanent Secretary to develop the answer, but I would start by saying that we have been trying to achieve a lot more in the Department, in some of the areas I have been describing to you, while making 50% administrative savings since 2010. That has clearly been very difficult. Working practices have had to change, some jobs have had to go, and it would be amazing if staff were completely content with the changes to which they have had to adapt. I am sure you want to add to that.

Martin Donnelly: Yes. Overall, I have been very pleased by the staff survey results. They highlight areas where we have got more to do, but, looking over the last four years, they have consistently improved. There is a very clear sense that the staff understand the organisational purpose and the work that we are doing, and that they have got the tools to do it. There are some issues. One of them is how staff feel. There are certainly continuing issues about pay levels, and there are also issues about management and how staff perceive that as being done. To deal with that, we are doing several things. We have introduced compulsory unconscious-bias training for all managers. We have got Professor Binna Kandola in to do several very well-received sessions to make sure that all of us in management positions understand what we are doing. We are looking again at our rigorous system of appraisal. We do need to appraise people effectively. We are also doing some anonymised surveying of staff to check that we are really picking up their concerns. I and my senior colleagues have meetings with small groups to make sure that we are listening to our staff, because they do a tremendous job and, as the Secretary of State said, we are significantly smaller than we were five years ago and there has been no fall-off in the workload.

Q5 Chair: Quite frankly, your response sounded rather complacent. If I look at three areas there, there is a drop from last year—admittedly only 1%, but it is a drop—in people saying, "I feel that change is managed well in the Department"; there is, again, a small drop in people saying, "The Department keeps me informed about matters that affect me"; and there is a more substantial drop in people saying, "I have the opportunity to contribute my views before decisions are made that affect me". They are all from pretty low levels anyway. It would seem that you and the staff really are not singing from the same hymn sheet on this. It would seem that it is about the process of managing change, which inevitably is going to cause most concern, but—according to the ratings that you are getting from your own staff—you are getting worse at doing it, not better.

Martin Donnelly: No, I do not think that is a fair assessment of the situation.

Q6 Chair: With respect, it is the assessment that your review and report brings out.

Martin Donnelly: This is an annual survey. The people doing it themselves say that 1% or so movements are not very statistically significant. If you look at the overall engagement, it has continued to rise. That is a big positive. We are aware that staff are working under pressure. We have done a lot over the last year to improve management systems. We are not complacent about this. We have introduced our "Management Matters" approach; we have made sure that whistle-blowing systems are up to the best standards in Government—not least given our wider responsibilities for them—and we make sure that everyone in management is very clear of their responsibilities to support staff in the work that they do. That comes out in the pulse surveys that we do throughout the year with our staff. That is the feedback that we are getting. There is certainly more to do, and staff in some areas do feel under a lot of pressure and I am concerned about that, but we are delivering effectively and there is a real feeling that the Department knows what it is doing and why it is there and is enthusiastic to deliver effectively. I have to report that.

Q7 Chair: Can I just come back to the thrust of my original question? What are the values of the Department? Why do you think the staff do not think managers are living up to them?

Martin Donnelly: Our values are very simple. We commit to each other's success; we focus on what matters most; and we empower colleagues to deliver. We make clear that we are doing all that in an environment that respects people's personal as well as professional lives. We have worked very hard on our diversity and in gender diversity terms we have got a balanced senior team. We have got more to do on BME and other issues, but we are very focused on those, because it is important to build the sort of Department that we want to be. We have done training of all of our senior leaders around telling stories about being more personal. This is responding to a staff need for more openness, and we are getting positive feedback on it. As I say, I and all my senior colleagues talk regularly to colleagues at all levels, because we see our job as making their jobs easier. I have to say, taking the Department as a whole, all the feedback we get is that we are going in the right direction. I understand your concern, but, looking at the people survey as a whole, it is consistently moving upwards and, while there is more to do, we believe that we are living out the values that make us a successful Department.

Q8 Chair: Could I suggest that perhaps you do a survey of your staff's agreement with the response that you have given to this Committee and we will analyse that next time?

Martin Donnelly: I will send it round, Chair, and ask people to comment. They are usually pretty straightforward. I will happily share it with you.

Q9 Caroline Dinenage: Clearly, as we have already highlighted, the Department is facing now a period of some uncertainty as we go into the forthcoming election. What I would really like to know is what are the areas of spending that you see have to be preserved at all costs, whatever the outcome.

Vince Cable: I am tempted to say "all of it", but that would be a rather unhelpful and somewhat mechanical answer. If there were any low-hanging fruit, it has been plucked long ago. I would start by saying that. We went through a very tough exercise in the beginning of this Parliament. We had to make some extremely difficult decisions—you will remember the issues around student tuition fees, for example—but we have managed, despite a considerably smaller budget, to do a lot more. In terms of forward looking, it would be a travesty if innovation and science in particular were to be cut. Our own estimates are that if we are to be internationally competitive in areas like innovation, we probably need to be spending about double what we are doing at the moment; it is not a question of cuts but of doing more. The science budget has been protected in cash terms, and I think there would be near outrage if that were changed. Those are key areas—and adult skills. Everything business is now telling us is that we have moved on from the financial crisis and, as the economy keeps growing, the biggest problem area is skills.

Again, I would find it very difficult to see, with the best will in the world, how you could make many savings in that area while preserving our fundamental economic role.

Q10 Caroline Dinenage: Are you all in agreement? Does anyone have anything to add?

Martin Donnelly: It is not for me to comment on political choices, but I am strongly in agreement with what the Secretary of State said about the evidence that there is, which we will certainly be continuing to put forward, of the importance of investing in these areas that lead to sustainable growth over time.

Q11 Caroline Dinenage: Secretary of State, when we or our successors sit here this time next year and you or your successor is sat in that chair, what are the key outcomes that you would like to see being reported from this year's spending?

Vince Cable: I will try to abstract from the party politics of it, because all the parties have a different approach. I would argue very strongly that the things that we do, which are almost entirely about supporting long-term growth and productivity in the economy, should be a priority area. There are particular things that you can criticise or things that could be done better, no doubt, but that is what we are about. I have always taken issue with the idea that you have protected areas of Government that may have very little relationship to the long-term success of the economy. That is one big issue. In my party-political capacity I would argue that we need a better mixture of tax and spending cuts. If the burden of deficit reduction falls almost entirely on spending, it will do a lot of damage.

Q12 Caroline Dinenage: You have already spoken about the low-hanging fruit and how you do not see that there is much more capacity for making those cuts. Are there any further areas were you have identified that savings can be made without compromising any of the core business activities?

Vince Cable: There are activities we do that are not directly related to growth but that have what you might call a progressive social function. Despite all the pain around university finance, we have maintained the system of student support—of grants and student loans. That is designed to help low-income students when they go to university, and there will be an argument about how that can be preserved, but that is not directly growth-related; that is part of our social function. That will be one big area that there will be a lot of fighting over, whoever is in the Government.

Q13 Mr Walker: Looking at some of the detailed information we have been provided with and the breakdown of expenditure, there has been a very significant increase in capital expenditure versus resource expenditure, and the projections going forward show that is set to continue. Is that sustainable in the long term?

Vince Cable: It should be. Again, I am arguing partly as an individual here rather than the voice of Government, but I have always taken the view that capital spending should be treated quite differently from current spending and should not be treated as part of the deficit. There is an argument for productive capital expenditure that produces a return to the economy on its own merits. Our Government has succeeded within its own definitions of deficit spending in increasing capital relative to current spending. That is healthy, but there is a strong argument for productive capital spending on its own merits, and I would want to see that continue.

Martin Donnelly: The other issue I would underline in this area is, as I imagine you will be aware, sometimes the capital/resource line can be a little arbitrary when it comes to delivering the services. We are very aware of that and, going forward, we will continue to make the case for the right level of resource to ensure that we get the full benefit from the capital facilities that we need, for the reasons that the Secretary of State has given.

Vince Cable: A good example is apprenticeships. The National Audit Office came out with a calculation—it was not ours—that for every pound that is invested in apprenticeships, there is £18 of return to the national economy. It is a no-brainer to argue on that basis that you should be treating that as an investment and expanding it, but under Government conventions it is treated as current spending, like spending on the health service and on benefits.

Q14 Mr Walker: It is an interesting area. I was going to ask about that specifically as well. Clearly, you do not want to get into the party politics of it all, but fundamentally there is a bit of a bidding war going on in terms of apprenticeships—who can provide more, who can raise the standards faster, and so on and so forth. The reality of the party politics is that apprenticeships are so popular that all the parties are competing to present plans for even more of them. Is that not going to put great pressure on other budgets? Looking at the breakdown of spending, the chunk of spending taken up by the Skills Funding Agency as opposed to HEFCE and other areas is greater than it would have been four years ago. Do you think that is likely to be able to continue to grow?

Vince Cable: You are right to say that there is a danger that because apprenticeships are particularly salient and all the parties are signing up to it—for good reason; it is a good decision—cuts are made in less visible areas that are nonetheless damaging. If I take the FE sector, for example, which performs an enormously valuable function, it has different mandates. Part of its work, and some of the more innovative work in FE colleges, is by developing apprenticeships, but they also do a lot of work with teenagers who have failed to do well at school and who are coming back to do maths and English and basic vocational training that is not classified as apprenticeships, and it would be unfortunate if that were to be sacrificed to pay for the apprenticeships. Similarly, adult education and lifelong learning performs an extremely important function, which I have tried to defend. We need to be careful, whoever is in Government—this is not a party point—that the headline issues like apprenticeships, which we all believe in, are not funded at the expense of other things that are less glamorous or sexy but nonetheless are valuable to the economy.

Q15 Chair: Can I just come back to your earlier comments about your approach to distinguishing between capital and current or resource spending? Does the Chancellor agree with your approach?

Vince Cable: No, I do not think he does.

Q16 Ann McKechin: On to the issue of major projects, your mid-year review stated that the Department has a "strong reputation" for project delivery, yet of the 12 projects that you have listed in the review only one has a green risk status, which is, ironically, the Green Investment Bank. Two have an amber/red status. I just wonder what the causes of concern are, particularly for the two that are amber/red, which are the further education 24+ Learning Loans programme and the ICR monetisation.

Howard Orme: I would expect major projects of a complexity of this size to have an amber rating during their time—it is not a negative—given the complexity and the scale of the changes that these are on. I just want to say that, yes, of course we would like to have green, but in major projects typically that would be when you have completed them. On further education 24+, there were two elements that were flowing out, which have now been resolved. One was some thought about whether the system would be ready on time. Indeed it was, so that risk was removed. The second one was that it did not work in higher apprenticeships. We have recognised that and changed the policy. The 24+ Learning Loans programme is now completed and is off the programme.

Q17 Ann McKechin: Is it back to an amber rating, then, would you say, or is it now complete?

Howard Orme: We will go through gate five, as they call it, which is when you completely close down the programme, and at that time it will return to something like an amber/green, I would expect.

The other one was the ICR monetisation. In order to deliver that, a number of stars need to align: not only the deliverability through the Student Loans Company, but also for us to be able to get the right type of classification for the ONS so it works, and to find a way of handling the interest rate cap, which is quite a difficult thing to work. At the end of that, we have got to find somebody who is willing to pay an acceptable price. Aligning all of those in one go is currently not the case—we do not plan to do it before the next Parliament—and the amber/red reflects that.

Q18 Ann McKechin: Can I just ask how you are tackling the red part of that review? What is the timescale in which you would expect the risk to be decreased?

Howard Orme: On the deliverability side, the better information that you provide as a student loans company for the book that you are selling, the better value you get for it. There is a continuous improvement process to do that, and we are using the time to strengthen that.

Q19 Ann McKechin: The concern for the Committee, Mr Orme, is that this part of the loan book was considered the one with utterly the lowest level of potential risk and was not considered to be difficult. I realise it is not a large amount of money in total, but it does strike me as rather odd that we are having all these difficulties over a project of about £28 million in value.

Howard Orme: I have always thought that this is going to be difficult to pull off. As I say, you not only have got to have the ability to do it—and this is a big transaction—but it has got to go into the market at the right time to be able to get the value that makes it value for money.

Q20 Ann McKechin: I think the Committee appreciates that, but, given that the stock exchange is, as at this week, at a historic high, are we going to see a point in a reasonable period of time—say in the next year or two—when it will be right to sell it into the market?

Howard Orme: I would not like to speculate on how markets will develop, but there are scenarios and windows where it would prove to be value for money.

Q21 Ann McKechin: It would be helpful to the Committee if the Department could come back to us with some information about where that project is and how you are intending to resolve the current amber/red rating on it, because I am not entirely certain that I have got an assurance from you this morning about it. I appreciate it may not be something that you are personally dealing with, but we would like to know what realistic prospect there is of getting it onto the market. Given the fact that the stock exchange is at such a high level and you cannot get it on just now, when is it ever going to be on the market?

Vince Cable: To be fair to the officials, I made a political judgment that we should not proceed with the sale of the student loan book, on the grounds that there was no clear value for money in doing so, but circumstances might change.

Martin Donnelly: Could I also just add that we will come back to you with an update? It is quite complex from the data side, but there is also the issue of interest rates. It is rather more interest rates than the state of the stock market, and we will not compromise on value for money, as has been made clear.

Q22 Mike Crockart: My experience as a project manager is that there are two things here: there is a risk register, which would identify potential risks to a project, and then there is the status of the project itself. Are we saying that the project itself is rated as amber, or are we saying that there are risks associated with it that are identified as amber? The two would be very different.

Howard Orme: Yes. We are entirely satisfied with the project and the way it is being conducted. This is not an issue about the project management of the process itself; it is the inherent difficulty, as I say, of making all these things line up. Until we are able to go to the market with a definite proposition, we will not know what the response of the market is going to be. We have only done soundings. Most of the amber/red is in the uncertainty about whether all of these conditions can be met at the same time, as opposed to any issue with any element of the programme itself.

Q23 Mike Crockart: I would be very concerned if your attitude to an amber rating of the status of the project was as lax as you laid out.

Howard Orme: I do not think it is lax. All of the individual work streams are progressing to plan, but I do not think I have seen a market deal programme that has had anything less than an amber/red status up until the point at which you can say, "We will achieve value for money" and then you go. Please do not interpret this as any complacency at all. This is being conducted under the brief that we have been given politically, but it is being conducted very seriously.

Q24 Mr Walker: I want to move on to the changes to the disabled students' allowance. The fact that major changes were put off was very welcome—we saw the announcement from Greg Clark last September that said that they were going to be put off—but the mid-year review states that £25 million will be saved in 2015-16 as a result of changes to DSA, and the equality impact assessment suggested that students from lower socioeconomic backgrounds "could be more affected" than other groups. What is the Department doing to ensure that those students are not hit hardest by the proposals?

Vince Cable: I will just give a political answer and then ask officials to develop it. A lot of thought was given to this; it was not just an arbitrary decision. It was not the elimination of the programme; it was just that it had been there a long time, certain practices were just assumed, and it was felt that we had to go very carefully through all the complex support arrangements in order to make sure they were being done properly. We did so and listened to the various stakeholder groups and responded to them. In the event, as you will know, there is now a judicial review that has been issued and we have to wait for that and respond legally when we hear the rulings. On the practical side of it, I do not know if you can—

Martin Donnelly: Yes. It is, as you know, complex and a very important area for a large number of people, so we did extend the period of consultation until 20 February, so it has only just completed. We are now in the process of looking at all the responses from stakeholders. The new system will not begin for anyone until 1 September, and we will be careful about that. There is also the need for further engagement in relation to the non-medical-help area, and changes there I think we have said will not apply until the following academic year, to give us time to get that right. We are doing the equality analysis and so on. Because of the legal proceedings position, it is not possible to go any further than that at the moment, but we are looking very carefully at all of the submissions we have received on this subject.

Q25 Mr Walker: It certainly seems to be something that has caused a great deal of concern. I represent one of the fastest growing universities in the country, which has a very high proportion of disabled students, and there was a lot of misinformation, perhaps, initially about the idea that this was being taken away completely. It is very important to engage on that issue. I have also spoken to local businesses that produce assistive software and that accepted that changes were reasonable—that it was totally reasonable to change the approach given that the cost of computers and the cost of software has changed—but, equally, were very concerned that, particularly for conditions such as dyslexia, assistive software can play a very important part. Can you give those groups any confidence that what they will have at the end of the day will be better targeted and will continue to meet their needs?

Martin Donnelly: I can say from an official point of view that this process of consultation to pull out those issues is extremely important in helping us deliver to Ministers the best evidence-based advice on what works in producing an inclusive learning environment for all people with different levels of disability and making sure they are being handled most effectively and in the most cost-effective way, but with the aim of making sure that people can study effectively. That is what we are doing, and we will go back to Ministers with those results.

Q26 Mr Walker: On a £5 billion budget for higher education, is a £25 million saving in this area really worth it? If this is an area where we have rising incidence of people living with long-term conditions and disabilities and we have a university system that is trying to reach out to those groups, is this really where we need to be making savings?

Vince Cable: The overriding objective is the one that we share with you: that we do not want, under any circumstances, to create barriers to people with different disabilities doing higher education. If we do that inadvertently, then that will not be a successful policy. We are trying to target help where it is needed and do it in an appropriate way. That is the objective of the exercise. We have got past the point, if we were ever at it, of saying, "£25 million does not really matter; we have got to deal with bigger sums." We have had to scrutinise every corner of the Department's budget.

Q27 Chair: Just on that, before we move on, I believe there is considerable evidence to show that students supported by this allowance tend to be higher achievers than the rest, and that in turn will have a long-term economic dividend. Does your evidence and research substantiate that?

Vince Cable: I think that is correct, but can you confirm it?

Martin Donnelly: I cannot directly confirm that, but I would not be surprised given the degree of commitment that people are making. There are financial considerations, but one of the things we are trying to do in this survey is to make sure that we focus the support where it matters most rather than simply saying you automatically get this or that. There is a way of improving the quality of support we are giving to people who, as you say, then make very good use of it.

Q28 Ann McKechin: I am sure the Department has been following the evidence that our Committee and the Scottish Affairs Committee have been taking about the collapse of City Link at Christmas. I just want to clarify when your Department was advised about this and how they reacted to it, because we have had some contradictory evidence. I put down a written question to Matthew Hancock, who said that you were advised on 23 December that the company was likely to go into administration on the next day. However, when we took evidence from Jon Moulton, he said that there was a telephone conversation to a member of BIS on 18 December, which was followed up by an email on 19 December but they received "silence—nothing came back at all". Could you confirm if that is your understanding: that you were contacted by Better Capital or City Link's staff prior to 23 December?

Vince Cable: The information I was given was the same information that was given to Mr Hancock: that the first contact had been with Mr Moulton telling the Department on the 23rd that closure was imminent. We became deeply engaged from that point on.

Q29 Ann McKechin: He says that he can produce an email on 19 December confirming a phone conversation from the day before. Given the scale of this collapse and the impact it had on hundreds of workers across the country, people might be a bit surprised if you received an alert on the 18th that there was not an immediate response by the Department to make sure that you were prepared to help workers over that period.

Vince Cable: I was not aware of that earlier contact.

Ann McKechin: I appreciate you were not personally, yes.

Vince Cable: Neither was Mr Hancock. But once we had been alerted to it, throughout the Christmas and New Year period I was more or less on the phone continually to the people involved in the Department and to the trade union, who made regular calls. The point that I would emphasise is that at no stage did anybody ever come to the Department to discuss a potential rescue operation and to try to involve us in that. The conversation was entirely about an imminent closure and how we could then help the work force deal with it. That was the conversation, and I think we have—with the DWP's rapid response unit—dealt with it as effectively as we could have done. It was a terrible time of year for this kind of problem to be—

Q30 Ann McKechin: I wonder, perhaps on that point, if I could just ask how your Department and DWP co-ordinated support. We had direct evidence from former employees that, in effect, they had turned up at the site on Boxing Day or the day after, after hearing the news on the television, and were handed a badly-photocopied piece of paper and they had no contact from DWP and no contact from the local job centre, which is very unusual, given that previous practice has normally been that there is an emergency team put in place who would be at sites to provide advice to workers on the spot. None of that seems to have occurred in this case.

Vince Cable: The request from Ministers, once we were aware of the scale and the nature of the problem, was that maximum help should be given. One of the practical problems that may explain some of the episodes you describe was that a lot of the people involved were contractors—officially self-employed—and did not, therefore, have employee status and what goes with that. I am not sure that explains all of the problem, but it may explain some of it.

Q31 Ann McKechin: Have you made any analysis since this incident to see whether there need to be any improvements, particularly where you have companies that have workers widely dispersed across the country rather than at one or two central sites?

Vince Cable: Since the operation started, I have had meetings with the General Secretary of the TUC and others—she has kept a very close eye on this because it was a major issue—and checked back with our own officials. People from DWP came across to my Department to reassure me that they were properly co-ordinating it. I have not since had any feedback of a negative kind. The machine, such as it was at that time of year, did the best it could.

Q32 Chair: Could I just intervene at that point? On Friday of last week I knocked on the door of a City Link contractor who had done a considerable amount of work, had not been paid for it and, as far as he could tell, was going to get very little from the process carried out by the administrators. What comfort, if any, can you offer to the considerable number of contractors in that position?

Vince Cable: In terms of our insolvency practice, they are unsecured creditors. They are, unfortunately, bottom of the heap. When a company goes down, such people are in a very disadvantaged position; next to the people who have the equity, they have little prospect of retrieving their investment, and that is a very sad situation. When these issues have arisen in the past, I have opened up discussions in the Department about whether we should be changing our bankruptcy and insolvency procedures to look at preferred creditor status. Farepak and all those issues have brought that to the fore. The problem is if you tilt the balance to one group of creditors it is at the expense of another, and if there is no more money in the company then ultimately there are casualties. It is very sad and I feel for the people involved, but, short of a wholesale change of the law with unintended consequences, I cannot offer them comfort.

Q33 Chair: I would like to pursue this but I am trespassing on a question that I know William wants to ask, so I will let him do that. Before I do so, Mr Donnelly, when did you know about City Link?

Martin Donnelly: I was aware around about the same time over Christmas.

Q34 Chair: Can you put a day to it?

Martin Donnelly: Not offhand, no. There is a difference between issues that I know our teams are handling about companies that may be moving into difficulty and then the formal process. I think it was just before—no, I cannot at this point, I am afraid, say precisely.

Q35 Chair: Could you inform the Committee afterwards, if you could check it out, when Better Capital contacted you?

Martin Donnelly: I can certainly check on the point about when there was contact with the Department. I just underline the point that at no stage was there a proposal for the Government to intervene in any specific—

Chair: No, we understand that, but the issues are wider than just that. That would be helpful to know—and if and when you informed the Minister of that. Could I bring in William now to pursue the line of questioning that we were covering before?

Q36 Mr Bain: When Better Capital acquired City Link, they said they wanted to pursue an employment model that had only 30% PAYE workers and 70% agency workers. As far as we have been able to determine, at the time the company got into severe difficulty, there were around 2,400 people either working or providing services for City Link, 1,000 of whom were contractors. As the Chair has said, there have been real concerns expressed, not least by the RMT, that many of these contractors were working in City Link uniforms and driving City Link vans, and a reasonable person might conclude that they were working exclusively for City Link. Their view is that this was a form of "bogus self-employment" that they had been encouraged to go into. These individuals have much less protection when it comes to getting wages back in terms of the Insolvency Act and the Enterprise Act. Do you now think there is a very strong and unanswerable case for review of this legislation to meet what is a growing trend in British employment practice?

Vince Cable: There is a strong case for looking at the employment status you have described. Before the City Link issue came up, I had initiated a thorough investigation of employment status, which we are now undertaking. It will be published after this Government, but it is now underway. It is identifying exactly the problem you have described: that under British employment law there are employees, who have certain entitlements; there are workers, who have certain entitlements; and there is what appears to be a growing number of people who are not genuinely self-employed but have, in some sense, fallen through the cracks. We are trying at the moment to get a handle on what numbers we are talking about, what are the potential gaps in the system, and how, at least through legislation, we might address that problem. We certainly acknowledge that it exists. It is a part of this wider debate. Zero-hours contracts was one form of employment status that had hitherto not been acknowledged, and semi-self-employment—whatever you choose to describe this as—is another. I would hope my successor, whoever it is, takes this seriously, because there is a gap.

Q37 Mr Bain: This is one of the points, really, the OECD analysis drew yesterday. The set of challenges for growth in the future are going to be about increasing labour productivity and how you respond to this growth of self-employment in the UK economy. The path to sustainable growth is not, frankly, having the worst excesses of capitalism let rip in this way; it is about having more investment—investing in work forces and investing in skills—and having a more productive economy, is it not?

Vince Cable: I would agree with that, but it is more complicated and multi-faceted. I was in the House 15 years ago when we had the controversies around IR35. You may remember that. It is about how people define themselves as self-employed sub-contractors and how independent you have to be to be self-employed. In some ways this is an old controversy. Part of the ambiguous status that people have in self-employment is something they have chosen to do. A lot of people are in that twilight area through choice—in the offshore oil industry, for example—but there are others who have had it imposed on them because of weak labour market conditions, and that is what you are describing.

Q38 Mike Crockart: The Federation of Small Businesses has said that more than half of its members have been paid late by large private companies in the past year. What evidence do you have that the Prompt Payment Code has helped SMEs?

Vince Cable: We have acknowledged it needs to be strengthened. We think it has had an impact but I cannot prove that. We think that a combination of the legislation that you are in the process of passing, which will bring out much more transparency in late payment terms, and a strengthened code—we are talking here about 60 days as a binding obligation on signatories to the code—will help to improve this practice, which is widespread and, as the FSB and others have pointed out, deeply damaging to many small suppliers.

Q39 Mike Crockart: How is the sign-up to the code progressing? I know that at the time that it was announced there was a commitment to name and shame FTSE 350 companies that did not sign up to the code. That has been rowed back from. How well is that progressing in getting the bigger companies to sign up to it?

Vince Cable: There was a meeting recently in 10 Downing Street with the various parties to try to draw lessons from the past. The naming and shaming will happen once parliamentary legislation is passed, because the terms and conditions that major purchasers offer will be out there and publicly declared. The naming and shaming is implicit in the legislation you are progressing. I think we have all acknowledged the code was a good start as an expression of good intentions. It has not been as effective as it should have been. That is why we have come back to you with legislation. We hope in parallel with the legislation that there will be a stronger code with tougher objectives in terms of payment and sanctions—not legal sanctions, because it is a code, but sanctions among signatories in terms of breach.

Q40 Mike Crockart: Is not the worry here that it is only late if it is later than the agreed payment terms, and perhaps the unintended consequences are pushing larger companies towards longer payment terms? We have seen in the last few months companies like Tesco being investigated, but, more widely in the food sector, 2 Sisters, Premier Foods, Heinz, Cadbury and even, unfortunately, one in my constituency—Diageo—moving their payment terms to longer terms. Diageo has moved to 90 days. Is that not just a way round late payment—if you manage to use your power to move your payment terms to longer periods?

Vince Cable: As I have said, my understanding of the revised code, which is under negotiation at the moment, is that it will set a maximum of 60 days, which is considerably shorter than some of the supermarkets are now operating. Clearly you are right that they have to set the right standard to be judged against, quite apart from whether they observe the standard. That is fully understood.

Q41 Mike Crockart: If we can move, then, to the performance of Government in terms of payment terms, the NAO report on late payments looked at four Government Departments, including your own, and how long it was taking to pay invoices, particularly paper invoices, which are used more by SMEs. The Government target, which was announced in 2010, was to pay 80% of undisputed invoices within five working days. Although BIS are managing to pay 80% by number, it is only 60% by value. What can BIS do to meet that target better?

Vince Cable: You are right; five working days is our objective. There was a distinction between the total value met and the numbers. We are not so good on the numbers but we have been good on the value. Perhaps you can explain.

Mike Crockart: It is the other way round.

Martin Donnelly: To be fair, the NAO's own analysis, as I understand it, showed that even measured against the value of invoices paid we did meet the five-day target in 2013-14. We want to continue to go further and we are very pleased that overall we are at about 98%, but we do meet that target as well.

Q42 Mike Crockart: I am not sure that is the case. It is the case in numbers but it is certainly not in value. The stats that I have in front of me certainly show that although BIS is managing to do it on numbers, the other three Departments—the MOD, Home Office and Cabinet Office especially—are lagging a long way behind. If you look at the Cabinet Office, at the worst end, there are £68 million worth of invoices that it took more than 30 calendar days to pay, which is a significant proportion of the £196 million total invoiced. I accept BIS are doing better than other Departments, but what can BIS do to try to get that best practice across Government as a whole?

Howard Orme: Looking at these, I acknowledge there is one area where we need to improve, which is on speeding up the paper-invoice payment. We are at 60%; we need to get to 80%. I accept that, and we have a programme to do that. Across Government, it is a Cabinet Office lead, so I can only do it though influence.

Mike Crockart: They are the worst of the four.

Howard Orme: But we will be offering them some advice on how we do it.

Martin Donnelly: Yes. My straight answer to your question is we have to go on encouraging the Cabinet Office to encourage all main Government contractors to sign up to the Prompt Payment Code.

Howard Orme: There is more we also need to do on procurement, to make sure that our bigger contractors are passing through the benefits that they are getting from us to our supply chain. Our visibility of that is not good enough yet; we will work on it.

Q43 Mike Crockart: But you would accept that if Government has a need to be the best-practice example, we are failing abysmally on that, especially in terms of the Cabinet Office's performance.

Howard Orme: It is incumbent on BIS to be best practice. There are a few things we need to do and we will address those, and I will work with my colleagues to spread this across Government.

Vince Cable: There are vast disparities between what even sub-performing Government is doing as opposed to some people in the commercial sector.

Q44 Mr Walker: Just to follow up on the point that Howard just made about the visibility that you have of where the money goes once the Government has handed it over to a private contractor, getting payments through to SMEs out there is crucial. I saw an announcement this morning from BIS about 25% of procurement going to SMEs in the future. I am not sure whether that was across Government or from BIS itself. How do we ensure that we can create that visibility so that we can make sure that prompt payments are trickling through the whole system rather than just going from Government to a prime contractor and then getting held up?

Vince Cable: In terms of this wider question about how you ensure that SMEs get Government contracts, what the Government has been doing is greatly simplifying pre-qualification questionnaires, which were the biggest obstacle to people getting into Government work, and the legislation—I think it is the Small Business, Enterprise and Employment Bill, but certainly one of the Bills going through at the moment—extends that practice to the public sector more widely. A lot of SMEs have difficulties with selling to hospitals or local councils; they will be subject to the same disciplines that central Government have adopted.

Q45 Mr Walker: In terms of the prompt payment side of things, one of the things is Government tend to be dealing with larger organisations. I appreciate you are trying to change that; you are trying to make it easier for SMEs to access it. Are there any mechanisms at the moment by which you can hold to account your prime contractors to be prompt payers themselves? Martin mentioned you are encouraging them to sign up to the Prompt Payment Code, but is there any visibility there on how well they are performing on it?

Howard Orme: I can only say it has been difficult for us to report how much we are spending with SMEs. It is not something that was typical traditionally and it has taken us some time to get there—and that is Government. We are asking quite a difficult ask of our contractors, but that is what we will have to do. This will be a long, hard chipping-away process, but we want to be able to say at a time in the not too distant future that we know the performance of our prime contractors because they will report it back to us. I do know from a practical point of view it is quite an ask to ask them to do that.

Q46 Mr Walker: Is that 25% figure in terms of procurement from SMEs just BIS, or is that across Government?

Howard Orme: That is a cross-Government target. We do better than that. I have somewhere north of 30% in my head, but I do not want to mislead you. We do beat the target.

Mr Walker: If you can write to us just with what the figure is for BIS, it would be interesting to see.

Vince Cable: That relates to central Government. Most of our activities take place through partner organisations, who we have less control over.

Q47 Mr Bain: There are estimates that half of the UK's bank branches have closed since 1989. In November you wrote to the banking industry saying that much tougher action had to be taken, particularly where there were proposals to close what might be the last branch left in communities that either suffer from financial exclusion or are in small towns or villages. The industry said it would set up a working group to look into these issues. What is your understanding of how that working group is progressing?

Vince Cable: I have had two roundtables since those comments were made—one just before Christmas and one after. We had the British Bankers' Association, the leading banks, groups representing deprived communities—Age UK type bodies—Citizens Advice, Which? and the Federation of Small Businesses to try to thrash out a better way of dealing with the last branch in town problem, which is going to become more acute because banks are, quite reasonably, pointing out that technology is moving on fast and they are losing a lot of their mainstream customers at branch level to internet transactions. We are very close to reaching an agreement—a code or concordat, whatever you what to call it. I would hope that within a very short period of time we will be able to announce what it is. The central idea is that the Post Office, which, partly as a result of the support we have given it, has survived as a branch network, will take on a lot of the financial transactions that bank branches do. We are currently discussing with them what happens if a bank branch closes in a village and they are not yet themselves equipped to take on the range of functions. There is a practical issue, but the basic strategy is clear and very shortly we will be able to announce a code of conduct.

Q48 Mr Bain: Can we expect that announcement prior to the dissolution of Parliament?

Vince Cable: Yes, certainly.

Q49 Mr Bain: Interesting. Would it require any changes to the Post Office working practices or any change to legislation at some point?

Vince Cable: At this stage we are not talking about legislation, but it will involve changes in terms of making the Post Office more proactive. It is already attracting a significant amount of financial services business. That is a good thing, because it is increasing access for people who would otherwise be financially excluded. Taking on a responsibility in a village where, for example, the local traders will be bringing along a big pile of cash at the end of the week—those are practical problems that we have got to sort out with them.

Q50 Caroline Dinenage: Just on that issue, I have had exactly that situation in my own constituency, where the last branch in Lee-on-the-Solent has closed down. There seems to be some confusion with regard to the Post Office arrangements as to whether they will accept business banking customers. In one of the places in my constituency the Post Office has said they will, but in the place where the last branch closed down they said they would not. Are there any plans to make a slightly more—

Vince Cable: One of the central objectives of this agreement that we are trying to reach—and I think we are quite close to reaching—is that it is specifically designed to deal with small business customers. As you know, in a lot of villages, it is the two or three remaining shops that keep the village alive, so it is essential that they should be able to perform a basic banking role.

Q51 Mike Crockart: You will be aware that just this week we have launched the report into Government support for business. The mid-year review noted that the UK is eighth in the World Bank's "ease of doing business" ranking—a good ranking—but it does lag further behind in specific measures, such as ease of starting a business. I do not know whether you have had much of a chance to read the extensive report that came out this week, but there are significant recommendations in there that would help with some of those lower rankings. Are there things in there that you would commit to looking at for the future?

Vince Cable: I have read the summary of your report; I have not had the chance to digest all of it. Let me start with the World Bank ranking. I think it has improved from 10th in the last few years. We do take these indicators seriously. They are a bit arbitrary and they vary from one ranking organisation to another, but we do benchmark ourselves and regard it as a good test of whether we are doing things right. There are some areas where we have been very low down the ranking. Electricity connections was one; there was a period when land registry was another, but that is improving; and in terms of the ease of starting up a business we were something like 30th or 40th—it was not great.

Mike Crockart: It was 45th.

Vince Cable: We are conscious of the deficiency. The processes around Companies House have been significantly simplified. We had the objective of starting a business with a click. I know that is a bit over-simplified, but there are a few standard processes that need to be gone through, including two sets of tax obligations—on the company itself and on employees—and the process has been streamlined. I would be surprised if it is not much better when the rankings are re-done.

On your report in general, my comment would be that it was a very accurate description of the system as it used to operate, but we have now drastically streamlined it. Most businesses are now aware that they can access information through www.greatbusiness.gov.uk, which is the main portal entry; the Business Growth Service is now consolidated advice for growing middle-sized companies; and the Business Bank is now a consolidated system for business finance.

Q52 Chair: Can I just intervene at that point? I have to say the Federation of Small Businesses has given what I think you would describe as a ringing endorsement of our recommendations. It would seem that, whatever the progress you feel that you have made in simplifying these processes, there is still a lack of awareness amongst the small business community.

Vince Cable: I spend a lot of time with the FSB in the field and talking to them in head office, and I am aware of the frustrations a lot of small businesses have. They are very busy and they do not have time to surf the internet looking for what is going. I am aware of that at operational level. In addition to the efforts we are making in the Department to make sure that advice, information and finance is available through a simple entry point, what is happening at a local level—which is where a lot of small business will look for help—is support for these growth hubs that are now springing up around the country. I was at one recently in Manchester, which is one of the more advanced ones. You have a simple, good office system. Any small business that gets in touch, they will within minutes locate them to the issues that concern them, and they will also get them in touch with a lot of the local schemes. Your Committee has been critical of the proliferation of schemes. Most of these are local—they are not national—and it is very important that there should be some local growth centre where businesses can grow and be connected to them. The system we have now got is a vast improvement, but it will take time to filter through to every small company.

Q53 Mike Crockart: Can I just press you on three specifics that are contained within the report and see whether we can get any further? You mentioned the British Business Bank becoming a one-stop shop for finance—especially alternative finance. That is welcome, but it is not just about the crowdfunding and other new forms of finance; it is the export guarantees and suchlike, which do not presently sit within the British Business Bank but the evidence that we received suggested that it may well be a good place for them to find a home. Secondly, borrowing powers of the Green Investment Bank is something that I have asked you about on numerous occasions. It would be good to have some form of commitment. The Green Investment Bank have stated they do not need them right now but they will very shortly, so it would be good to see some sort of commitment to that. Finally, how can we get to a point where there is a committed timeline to achieving the aspiration, or target—and this is the difficulty—of £1 trillion a year of exports, if, indeed, we are firm in attempts to achieve it?

Vince Cable: The first issue is something we have debated amongst ourselves. There is a question about whether you should put UK Export Finance in with the Business Bank or leave it where it is. The argument for leaving it where it is, which has so far prevailed, is that because it is specifically about exports it should be synchronised with the work of UK Trade and Investment, which is rapidly expanding its access to small and medium-sized companies. That is the market we are aiming for. UK Export Finance, when it was ECGD, used to be a big-business operation; it was tanks and aircraft. It is now targeted much more at SMEs. SMEs are much more likely to know about it as a result of seeking UKTI advice, so we wanted to pair the two organisations, as it were; that seemed to make sense. But equally, there is an argument for putting it in a business bank, and I can see the arguments for and against.

On the borrowing powers of the Green Investment Bank, we have committed ourselves for this to happen. The view of the Green Investment Bank—I visited their headquarters a couple of weeks ago—is that they have enough capital for the time being. They are doing an impressive job. They have disbursed £2 billion, or something of that order, with £4 billion of private capital. They will, if they are going to continue with their mandate, need more, and we estimate this will be in 2016. This Government will not be here to show you that that is delivered, but that is the commitment we have made and that is what the bank needs.

Q54 Mike Crockart: Just before we move on from that, 2016 will come before the condition that was set to give the borrowing powers, which is the net deficit having come down. Is that a commitment, then, to change Government policy so that borrowing powers will be given before the previous target is met?

Vince Cable: Whoever does this job will have to sort that out with the Treasury. These net-debt objectives fluctuate over time, as you know, as the economy changes, but certainly our commitment is that it should have borrowing powers, that this is real, and that when we reach the next stage, of having to mobilise capital, it should be able to go to capital markets to do it. That is a very clear objective.

Martin Donnelly: Could I just add, on the UK Export Finance point—as the Secretary of State has said, it is something that we have looked at carefully—they have moved a long way with three new products specifically focused at small firms? We have also got joint work between UKTI, the British Business Bank and UK Export Finance as to how they can function effectively together, but we do need, for international comparison reasons, to keep a ring fence around credit export facilities because of all the international agreements we have signed up to to avoid unfair competition in this area. It does mean that you have to treat UK Export Finance slightly separately as an organisation. The challenge, as the Secretary of State has said, is to make sure that we focus it effectively with UKTI on the needs of small firms, and we are making progress.

Vince Cable: Your last point was about the £1 trillion target. We are clearly not meeting that at the moment. I do not know whether Lord Livingston has ever been in front of your Committee, but he has done a lot of number-crunching and came up with the interesting conclusion that a lot of the under-performance is due to some rather strange things that are happening with gold and diamonds, which apparently account for a very large part of both exports and imports, and fluctuations in these affect the numbers. The basic story on exports is that we are doing exceptionally well with very large volume and sterling value growth in big emerging markets like China—to a lesser extent in India, but many of the other big emerging markets are in quite spectacular growth—but we have very poor figures in Western Europe, for reasons that are understandable. The combination of the two is below that objective. It is perfectly reasonable to continue to be ambitious, because if the rebalancing of the economy is going to happen it is going to come through trade and we must, therefore, have an ambitious objective. Whether we are able to reach it will partly depend on sustaining the momentum behind the emerging-market promotional work that we do, which is very energetic—there are some good things happening—and it will partly depend on things like the exchange rate that are beyond our control and are currently difficult.

Q55 Chair: In response to your comment earlier, yes, we had Lord Livingston before the Committee, but it was essentially on the TTIP negotiations rather than the support for industry. You mentioned gold and diamonds but did not really elaborate, perhaps for a very good reason, on how it affected the figures. Would you be able to send the Committee some sort of written assessment on this?

Vince Cable: Yes. It is a strange phenomenon. Export growth has been substantially weakened, without deterioration in the trade deficit, because it affects imports and exports at the same time. It is entrepôt trade in these very valuable substances. We can send you a technical note on it.

Chair: That would be helpful.

Q56 Caroline Dinenage: I want to talk about the Red Tape Challenge. The Department states that it has "continued to deliver benefits to business by achieving 10 of the 30 recommendations" of the Prime Minister's EU red tape task force. I just wondered what happened to the other 20 recommendations.

Vince Cable: I cannot tell you off the cuff. We do know that a large amount of superfluous regulation has been scrapped, and we have estimated £2 billion worth of cost has been saved through that process. One of the things that has emerged from the Red Tape Challenge that is quite important is that when initially we had long lists of regulation and business groups were invited to say how this affected them, one of the things we discovered was that it was not so much the number of regulations but the way in which the regulatory agencies themselves functioned. We now have a system whereby there is a prime organisation: if you are trying to trade across the country and every local council has a different approach to regulation, you can go through one, which is a designated regulator, and that will apply to all the others; you cut out a lot of duplication. The Red

Tape Challenge has evolved in ways we did not quite expect, but it is qualitatively extremely valuable.

Martin Donnelly: If I could just offer one example of that that we came across this week, there is a bakery chain that was struggling with the question of when it had to provide lavatory facilities in its shops. The question was whether, if you had one table and chairs, that required facilities, or whether you did not require facilities unless you had six or 20 people. The lead regulator—in this case, a council in the North East—gave a decision, which is now applied across the country so we do not have to go through the process everywhere. It does make a big difference.

Q57 Caroline Dinenage: Is it possible that someone could just drop us a line to let us know which of the recommendations have been achieved and what the ones are that are—

Martin Donnelly: In the European Union context?

Caroline Dinenage: Yes.

Martin Donnelly: Yes, we can certainly do that. I would just add that the December European Council—we know that things in Europe can take a little longer than one would like sometimes—explicitly agreed that there should be a reduction in the regulatory burden overall, with First Vice-President Timmermans playing a very active role and in discussion with Ministers in the UK. We do have a real sense of focus on this issue in the new European Commission.

Q58 Caroline Dinenage: Good. I think we would all agree with that. This is quite a demanding question and I do not know whether you will have this number to hand, but have you got any idea how many regulations you have introduced this year compared to how many you have removed?

Vince Cable: We do not count regulations; we count their cost to business. The "one in, two out" system does not mean that you remove two regulations for every one; we get these experts in—the Regulatory Policy Committee, as it is called—to do a cost/benefit calculation, and the costs are then offset against "outs", as we call them. We are pretty confident that the basic objective of achieving balance will be achieved.

Q59 Chair: Can I just follow that up? You do have a policy—it used to be "one in, one out"; now it is "one in, two out", I understand. I am not quite sure how you can implement that policy without having a record of the regulations that you have abolished—

Vince Cable: We do, and there is an annual report published.

Chair: I thought I had seen it in an annual report.

Vince Cable: Yes. It does exist, and it is all quite transparent.

Chair: Again, could you send the details to the Committee?

Vince Cable: Yes.

Martin Donnelly: We can give you the latest update. As the Secretary of State said, we do it in terms of financial impact, but we will let you have those details.

Q60 Chair: Could I just follow on from something that you touched on in response to Caroline? That is about the implementation of regulations. Everybody is familiar with the so-called "gold-plating" of EU regulations, and it does seem as political representatives odd that other EU countries seem to be quite happy to live with a certain regulatory regime that we are told by British business affects them substantially and adversely in comparison to other European countries. Have the processes that you have put in place about the implementation of regulations done anything to mitigate that particular problem?

Vince Cable: Yes. We do feel we have stopped gold-plating. There is quite a lot of myth in this area. In most of the league tables that I have seen about member countries' implementation of European legislation and regulation, we are about mid-table; we are not über-diligent. That is probably about right. We have been very active in trying to ensure that the Commission itself pursues better practice, and that is the discussion we are having with Mr Timmermans. There are not many examples screaming about where we in the UK have pursued far more diligent, intrusive, costly forms of regulation than emerge from the Commission. Where they have happened, we have tried to deal with them.

Q61 Mr Walker: The science and innovation strategy was published in December. It was greeted by the Campaign for Science & Engineering as "reassuring" but not exciting—"overwhelming", I think their word was. Secretary of State, you were quite effusive earlier about the value of investment in science and R and D, and the need for the UK to catch up in that space. Do you regret the fact that there is not yet a specific commitment to ring-fence the budget going forward? Whilst the revenue budget has been protected over the last four years it looks like the capital budget has declined. That is in contrast to the BIS budget in general, where capital expenditure has increased. Do you feel that is an area where we are falling back further?

Vince Cable: We did obtain a significant slug of science capital last year. I cannot remember whether it was in the Budget or the Autumn Statement, but that has been agreed and that has reversed the phenomenon you have described. The science community make the obvious point that a lot of their laboratories are sub-standard and need replacing. This is not necessarily glamorous, big new projects but it needs doing, and there has to be capital spending on research, for exactly the reasons you imply. In terms of the basic strategy, the point that I emphasise is that although the science budget, which is blue-skies university science, has been protected and ring-fenced, this has not been true historically of the innovation budget, which is the point at which R and D gets into business. We have done—even though I say so myself—really good work in building up a good innovation programme through the Catapult network. That is not protected, but the case for it is a very compelling one, and it does depend on co-financing with business and universities.

Q62 Mr Walker: Is there any way of measuring the performance of that leveraging of public sector investment in this area in terms of the amount of private sector investment going into those Catapult centres and those collaborations alongside the public sector?

Vince Cable: It can be and is measured in particular instances. We had what turned out to be a very successful programme in university campuses, where the Government offered 50:50 for capital investment in research facilities. That was an extremely popular programme and attracted a lot of very good university bids. As far as the Catapults are concerned, we have one third, one third and one third from universities, Government and the private sector, but the proportion varies in some cases, like the advanced manufacturing Catapult, where there is enormous take-up by business and real enthusiasm and they have got beyond one-third. One of the tricky issues going forward with the spending review is how to sustain that programme, bearing in mind the Government contribution.

Q63 Chair: Can I come on to the Tomlinson Report, Minister? I know you have had evidence put to you by representatives of failed businesses. Indeed, I had the same evidence put to me by some of the same businesses. The Tomlinson Report did suggest that some of the major clearing banks had been deliberately engineering defaults in companies in order to make money from fees or devalued assets. Certainly I know that you have been sympathetic to some companies that appear to have suffered this. What evidence have you got that these practices have changed following the Tomlinson investigation into this?

Vince Cable: Let me go back a bit. I would acknowledge and praise the work that Mr Tomlinson did. He was our first entrepreneur in residence—the first of two—and I encouraged him to pursue the line of inquiry that he did. He produced this report, which we gave to the Financial Conduct Authority. I am not sure that they have yet completed their work. In some cases there was a discussion about whether this merited intervention by the Serious Fraud Office. I do not know where that got to. Whenever I have met the leading banks, I have challenged them to assure me that these practices do not continue. I am meeting Mr McEwan later today, and I know that RBS has closed down the unit that was at the centre of a lot of these allegations; certainly that is the case in Lloyds too. The FCA is the body that is following this on a constant basis.

Q64 Chair: I know that the representatives of some of these businesses have approached the FCA, and the feeling they are getting—and I think it is probably correct—is that they are being passed from pillar to post. They have very genuine grievances that reflect practices that may in some cases have been illegal but nothing is being done about it and they have no means of personal redress. When you think of past scandals—the PPI scandal and so on and so forth—something has been put in place to compensate the individuals concerned for the consequences of these particular working practices by the banks. Here you have got businesses that may have had employees where individuals have been made bankrupt purely and simply, on the face of it, because of the banks deliberately foreclosing on them. Could the Department make representations to have some sort of investigatory process carried out in order that companies and individuals who have been affected like this can have them investigated and a decision made, and at least feel there has been some sort of redress from the various Government institutions that are supposed to support business?

> ***Vince Cable***: I will certainly ask the Financial Conduct Authority where they currently are with those investigations. They do relate to events five or six years ago—sometimes longer. Most of them relate to activities in the commercial property market, where conditions have now changed, but we do need to find out what happened to those investigations. I know some of the banks denied them. I will ask the regulator where they currently stand.

Q65 Chair: Thank you. I would welcome a copy of the responses that you get on that. Just coming onto the role of the Insolvency Service in general—indeed, we are going to have a session on this; ideally I would have liked to have had it before questioning you, but anyway—what do you see as the key role of the Insolvency Service and what are the outcomes that you judge its success against?

> ***Vince Cable***: The key role of the Insolvency Service is in managing failure of companies. The key test of it would be how far it is able to keep the good bits of companies going, preferably as going concerns, to give an opportunity for companies to be re-launched. That is a key objective. Another is to ensure that if a company does go down there is a fair and transparent system of allocating the remaining assets. Those are its main objectives. As you know because Parliament has been dealing with it, there is legislation going through at the moment to reform insolvency practice, particularly since there are six or seven different regulators, to ensure that there is a much clearer, less ambiguous system of regulatory responsibility. There has also been an attempt to look at insolvency practitioners' charges. We did a report into that, and the follow-up to it is in the legislation that you currently have. I know it is a contentious area and, particularly having been through a very traumatic recession, there has been much more focus on that service than was the case in the past.

> ***Martin Donnelly***: It is also the case that we are seeking to use digital services increasingly for insolvency as well as other services like Companies House. We are trying to move the organisation through an important transformation.

Q66 Mr Bain: Earlier this month, it was reported that the administrator and advisers working on HMV's administration could be taking up to £19 million in fees whilst the Government, via the Pension Protection Fund, would be left to plug the gaps in HMV's pension fund. Does this indicate that there is a failure in the current approach to managing insolvencies?

> ***Vince Cable***: The very large fees raise the question about how fees are determined and whether they are fair or exorbitant. It was on that basis that I asked Elaine Kempson, who is a professor at Bristol, to do a review of fee-setting by insolvency practitioners in order to establish whether this was an issue. She has come up with a variety of recommendations for improving practice. The kinds of sums that you are describing arise

when cases are big and complex. If a professional firm is billing so much an hour, very large sums rack up quickly. That is all the more reason for having a procedure that is quick and efficient.

Q67 Paul Blomfield: Secretary of State, you will recall the report that we published on student loans last July, in which we expressed serious concerns about the sustainability of the system and asked you to review the situation as a Department. Have you done so?

Vince Cable: We are constantly reviewing it, but we have never accepted the premise of your argument that it is a problem of sustainability. There is a lot of focus on the so-called RAB charge, which has very little meaning in the real world. It has got no connection whatsoever with what Government spends and it has got no connection with Government's net asset position. It is a projection of what the position might be when I am 105 years old—I may still be doing the job, but it is improbable. It is a projection that is to 2048-49, based on three years of base data. The RAB charge can go up and it can go down. It is an exercise we have to do—clearly, the Government has to make some kind of estimate of potential default on its loans—but it has no operational significance whatsoever. We take the view—I believe this very strongly, and it is a view that has recently been confirmed by the OECD—that we have the most sustainable system of funding within the OECD. Universities are properly funded; students now have a progressive graduate-tax-type repayment system; and, unlike almost every other bit of society that depends on public sector funding, universities are in extraordinarily good financial shape.

Q68 Paul Blomfield: It is curious that the importance that you place on the RAB charge has declined in inverse proportion to the estimate of the RAB charge.

Vince Cable: I have never attached importance to it.

Q69 Paul Blomfield: Your university Ministers, at an early stage in the debate, in demonstrating the sustainability of the system, put great stress on the fact that the RAB charge would be less than 30%. Then it was going to be 32%. There was contemptuous dismissal within robust debate of a suggestion by HEPI that it might be 40%, and now we know it is 45%. I am not an economist like you, Secretary of State, but I am puzzled by this idea that we should casually disregard an estimate of a future cost on the public purse. That is what we are talking about, is it not? Money that is lent and not repaid is going to be a cost, whether it is when you are 105 or even younger.

Vince Cable: It is not supposed to be a self-financing scheme; it is a progressive repayment system, akin to a form of graduate tax. The fact that it is not repaid is not because people are defaulting; it is because we have quite deliberately said that low-earning graduates should not repay. It is the principle of income tax. You would not look at income tax thresholds 30 years down the line and say, "This is not sustainable because people have been lifted out of tax". That would be a weird way to look at it. Treating this entirely as if it is a self-financing loan scheme, which it is not, misses the point of what we are trying to achieve. It is quite a deliberate act of policy to subsidise graduates on low incomes who cannot pay.

Q70 Paul Blomfield: I fully accept that, Secretary of State, but the deliberate act of policy was that the cost of that subsidy was going to be below 30%. You are now calculating it at 45%, and in the previous session that we had with officials and the previous universities Minister, they acknowledged you were modelling it at over 50%. Are our concerns not also reflected in the National Audit Office report of the previous year, which said you need to get your modelling better as a Department?

Vince Cable: To the extent to which we would take the RAB charge seriously, it needs to be modelled as well as possible. The reason you may think I am getting quite aggressive in my reply on it is the way that this is wilfully misunderstood. The Government do not have to set aside any money to cover this RAB charge; it is a purely theoretical construct and has no operational relevance. In terms of its changing value, there are several reasons why the estimate of the RAB charge has risen. One is that we have had a period of below-average real earnings growth, and extrapolating it into the future will produce an estimate of yield that may change if the trajectory of the economy changes. The whole calculation is based on assumptions about discount rates and interest rates that may radically change in future. A key reason is that because we are expanding university education and have lifted number controls and more and more people are getting an opportunity to have higher education, it is quite likely that we will have more people who have graduated who are not at top, premium rates of salary. That is another factor. But that is a progressive policy development and not something we need to be worried about or apologise for.

Q71 Paul Blomfield: Let me, then, ask you about another part of your oversight in this area that probably does not fall within the context of progressive policy, which is the Public Accounts Committee report yesterday, which indicated its concern about the way that the Department had completely lost control of the amount of money that was going to support students in private sector institutions. I think you would probably agree that their conclusion that BIS had no clue what proportion of the £1.27 billion paid out of the public purse has been lost to fraud or waste is a fairly devastating conclusion and relates, again, to just how far the Department has got a grip on these issues.

Vince Cable: Unlike your first issue, which I am dismissing as a non-problem, this is a real problem and I acknowledge it. It is a real issue, because it involves real money now in institutions and taxpayers' funding. We therefore take it extremely seriously. If I can go back to why this situation has arisen, the view the Government took at the beginning of our higher education reforms was that there were alternative providers out there who were known to be of very high quality—we are talking about the University of Law and institutions of that kind—and who therefore should be brought within the higher education funding system. There was also a wish, which was entirely understandable, to see experimentation—instead of conventional university courses, to have shorter foundation degree, HNC, HND and BTEC-level courses provided for people who did not want the full university course, and we wanted to encourage providers to come in and provide that type of course. If you look at skills shortages, they are often around technician level, which is HNC/HND-equivalent, so there was a need for this type of provision. What happened was that there was a very rapid growth in this sector, much of it of high quality, some of it of very poor quality. We have realised this as the situation has evolved. There have been a small number of cases of abuse—Guildhall, ICE and others; they are out there in the public domain—and they are now being discussed. As soon as I became aware of the rapid growth and the risk of abuse, we initiated a very thorough investigation of the sector.

Q72 Paul Blomfield: Can I just ask at what point that was?

Vince Cable: There were a series of trigger points, but I certainly recall during 2013 the combination of very rapid growth and the concern about students who perhaps should not have been in those schools came to light.

Q73 Paul Blomfield: Can I ask why you only became aware of the rapid growth in 2013? I have got a copy of a serious piece from *Times Higher Education* that reports the risk of this growth—rapid growth—in July 2012. Roger King, who was visiting professor at the University of Bath, said it was "a matter of concern to the taxpayer", and you were not aware of it until a year later.

Vince Cable: I was aware of rapid growth. Because of the growth factor—precisely for that reason—we did, in 2012, initiate a process of establishing number controls, and there was a public consultation launched as to how we establish number controls for 2013-14 based on a lower base level. That problem was already being taken into account. There was no suggestion at that stage that there was the kind of abuse that you have referred to; that came later.

Q74 Paul Blomfield: Should the rapid growth in an unknown sector with new players not have led to greater scrutiny from within the Department? Because there was not that scrutiny, we have got the situation where the Public Accounts Committee reported that you had no idea why 20% of students in the alternative provider sector had not signed up to do any exams. Was there not a failure of monitoring and accountability?

Vince Cable: That kind of abuse became evident at a later stage and we jumped on it very promptly once we were aware of it. The idea that the rapid growth of higher education is a bad thing was not how we started. As you know, the Government does not have detailed oversight of higher education institutions. Universities and FE colleges providing HE are independent bodies who do not operate directly under Government control. That is one of the strengths of the British system. The alternative providers were being opened up into that space. The fact that there was growth was not surprising, but, for quite obvious prudential reasons, once the pace of growth became apparent, we initiated the process of number control, which is the 2012 exercise. I do not remember the date in 2013, but I remember the conversation with the Permanent Secretary when we began to become alarmed by some of the things that were happening. The process of expansion was stopped summarily until we had investigated the malpractices that were undoubtedly occurring in some of the colleges.

Martin Donnelly: And we did set up in 2013 a cross-departmental team to do this investigation, including our internal audit and using other Departments' expertise. We have progressively tightened the quality processes since then. Having produced a cap to make sure that we continue to be able to finance the growth, we have been continuing, as more evidence has become available of which colleges were delivering good-quality facilities and which appeared not to be, to focus down and to make sure that we are checking those more rigorously, to make sure that the quality of the course itself is validated, that the provider has passed a QA review, and that the finance and governance of all the providers pass an assessment by our Department on the advice of the Higher Education Funding Council.

Q75 Paul Blomfield: Can I just ask you, Mr Donnelly, given that we saw that quadrupling of designated courses in a 12-to-18-month period back in the early years of this Parliament, what extra processes you put in place as a Department to ensure money was being well spent at that time? It was a significant development in the sector.

Vince Cable: It has happened step by step. As I said, in 2012 the process of number controls came in. The Minister of State published a written ministerial statement summarising 10 steps that we have now taken, and they have come in one after another depending on feasibility. That was at the beginning of this year. There is a very comprehensive framework now for dealing with this problem, but it has come in incrementally.

Q76 Paul Blomfield: I appreciate, Secretary of State, that there is now. What I was trying to get to with my question to Mr Donnelly was: given that this was a significant policy departure to encourage the growth in the alternative provider sector, given that there was very substantial growth, and given that a number of independent people were giving warnings of the cost to the public purse, how did the Department anticipate the consequences—not how it has caught up with itself subsequently?

Martin Donnelly: Perhaps I can make two points. We can send you a timeline of the different steps that we have taken over the past three years. As the Secretary of State said, this was a step-by-step process. It was very rapid growth. It was also from a very low base—from about 7,000. We are now, as you know, at 50,000 to 60,000. The first step that we took was to make sure that we had capped the growth in the largest providers as soon as that information became available and we had gone through the necessary processes. We then continued to tighten up the quality appraisal. We made all the institutions come back and be reviewed to check on the quality of their courses, and we have progressively increased the levels that they have to achieve to do that. We have done that over the last 18 months and we continue to do that. There was a further announcement in January, and we are looking again at what more we need to do. The essential story is, as the evidence became available, we made sure that we were capping the financial cost within our budgets and we were then checking the quality of the course and the quality of the provider using the existing facilities that we have got with the Higher Education Funding Council and others, but also focusing particularly on those who had grown most rapidly.

Q77 Paul Blomfield: Can I just conclude this theme with one question? The Public Accounts Committee said that you have no idea as a Department how much of the £1.27 billion paid out to private providers has been lost in fraud or waste. Is that true?

Vince Cable: We are narrowing down the calculations as we work through the problem. We are talking about over 100 institutions, which have grown up from a handful. As far as we can assess, there are very serious question marks over a handful of them. The vast majority are bona fide, providing a good service that young people are perfectly happy to pay for, and they claim as appropriate grants and maintenance loans, or fee loans in some cases. I do not think anybody questions that the vast amount of that public support has been subject to all the proper processes. Where it has not been, there are two different problems that have been conflated. One is that there have been—undoubtedly—cases where the form-filling has not been done properly. For example, Pearson, the company that oversees the certification process, was allowing people to go forward and make claims and they were not registered until they did the assessment. They should have been registered right at the beginning. That was a lapse of procedure but it was not in any way suggesting that it was waste or fraud.

Where we have suspected fraud—and there have been some cases; people from Southern Europe in some cases have come into courses, they have not met the residency qualification and they have claimed grants—we are now trying to retrieve that from them. There is a tiny amount of that total sum that was improperly spent, and we are trying to retrieve it.

Q78 Paul Blomfield: Can I just ask one final question, which is reverting to the previous point, in terms of the practicalities of uncollectible debt? In our report last year, we recommended a change of culture in the Student Loans Company to tighten up the collection regime. How far have you implemented any change in that area, and what results have we seen in the subsequent seven months?

Vince Cable: The Student Loans Company in general has performed well in both the disbursement and the collection of loans. If you remember, roughly about the time we came into office, it went through a profound crisis—a simple inability to deliver—and all kinds of improved management systems were put in place. It has performed much better as a company and we are satisfied with its performance. We have had no major difficulties with getting loans out to students. In terms of collection, they have been tough. They have been accused in some cases of being too tough. Some of the alternative-provider students, for example, who they have gone after have had bailiffs appearing at the door. It is not lack of diligence; the Student Loans Company has been accused of being over-energetic in reclaiming its funding rather than the opposite.

Martin Donnelly: And we have doubled the resource that is being spent on chasing up loans that are overdue, whether in the UK or in the European Union or, indeed, more widely, using the latest techniques to do that. The SLC do have a focused team working full-time on that.

Q79 Paul Blomfield: What success have you had particularly with collection from those studying abroad? That was a theme of our report. We contrasted the effectiveness of that with, for example, the United States, who are pretty good at collecting fees debt from their students who move abroad.

Martin Donnelly: It is quite early days yet, because quite a lot of the students are only just beginning to graduate and move. It is also the case that quite a lot of the students working in Europe are British, who go abroad for some years and then come back. We make sure that we have very clear processes for contacting them, for staying in contact with them, and for making sure that, as and when they return, we also use the processes here. We are looking at bilateral agreements with various European countries so that we can collect each other's debt more or less automatically. The system is working. It is more challenging in the European Union than it is in the UK, but there is a strong legal framework that supports us collecting that debt, and we make very clear that we expect it to be paid and we go after people who fall into arrears, sometimes for understandable reasons.

Vince Cable: The question you raise is a very important one, because it gets to the heart of the controversy that you initiated. People often say to me, "Since you have a kind of graduate tax system, why do you not just go the whole hog and have a graduate tax instead of trying to pretend that you are doing a loan scheme?" One of the main reasons is because of overseas students from Europe. Under a contractual arrangement we can claim back the money; if it were a tax system we would have no basis for claiming it back because there is no common tax policy. Although we are only talking about 10% or less of the student intake, that, in a way, is the hinge on which the system swings.

Paul Blomfield: I am tempted but I will not enter into that wider debate.

Q80 Chair: Just before we leave that subject, coming back to the PAC report and the alternative providers, you have outlined the steps that you have taken in dealing with this particular problem but the fact remains that a substantial amount of public money appears to have been lost and there does appear to have been at least an element of fraud in the system. What do you feel in hindsight you did wrong or perhaps should have done but did not when this was set up?

Vince Cable: As I have already done with Paul Blomfield, I would question the premise that a vast amount of money has been lost. I do not think it has. People have done courses and got higher national qualifications. You may take the view that these colleges are not providing Oxbridge or Imperial College level qualifications—

Chair: I am just going by the PAC report.

Vince Cable: We would not accept the premise that large sums have been lost. There has been some and there has been some fraud, without doubt, and we are now pursuing that as aggressively as possible. Once you liberalise a system, which is what we have done, and you allow or, indeed, encourage a lot of new companies, which is what they are, to come in and provide a service, you cannot totally predict in advance how the market is going to respond. That is the situation we are dealing with. Universities in general, and alternative providers in particular, are not directly controlled by Government, and we do not want to control them.

Q81 Chair: I think the figure given by the PAC is £20 million. Is my memory correct on that?

Martin Donnelly: In terms of fraud?

Chair: Yes, or lost money.

Martin Donnelly: This is a complex area and there will be another discussion with the PAC, as you know, later in March. One of the issues is about the level of drop-outs of students. Clearly, whether in alternative providers or in, if you like, the more traditional sector, some students—those who are older; those who have family responsibilities; those coming from less prosperous backgrounds—tend to have a higher drop-out rate. The fact that they drop out does not mean that they will not then return to study later or follow some alternative course, so there is an issue about whether you consider drop-out rates in themselves to be a sign of misused funding. I do not think it is as simple as that. Therefore, there is a question of what you put into these figures. The figure for fraud in terms of people who have been proven to apply for funding to which they were not entitled is much smaller than that.

Q82 Chair: Will you be responding to the PAC?

Martin Donnelly: We will be providing further information to the PAC over the next week or so in advance of that hearing.

Chair: Could we have a copy of that? We will examine it.

Q83 Mr Walker: One of the key recommendations of our report on the future of the high street and retail was a root-and-branch reform of business rates. Clearly, we have that in the offing. The machinery of government means that a lot of the decisions on that will sit with the Treasury or with CLG. What role is BIS playing in advocating what would be a better system for business?

Vince Cable: I have certainly advocated in Government and publicly that the business rate system needs to be reformed, and I have encouraged the business groups to come up with coherent alternatives. One of the problems is there are different views about how you reform it; that is inevitably the case. We have certainly pressed to have an extension of business rate relief for small traders, and the Treasury has been very helpful in continuing that. As we look forward, there are two levels on which reform is being considered. One is the fairly limited changes working within the current system. There is a good case for saying, “Let’s have annual revaluations”. That does involve more bureaucracy to do the valuation, but it would help companies—business traders particularly—to keep abreast of rent changes so they are not faced with massive, painful revaluations. Equally, there are much more ambitious proposals about doing away with the whole system and replacing it with taxes on turnover or site value or whatever. It would help if the main business groups were to collectively come up with an alternative that is tax-neutral—because I doubt that the Treasury would look at any other set of options—and that is consistent amongst themselves. That is a bit of a difficult task, but that is where we should be heading.

Q84 Mr Walker: Can this Department help to collate that and encourage that and engage with them on that?

Vince Cable: Yes. We have a unit that does work on business taxation, and certainly they brief me and they work with the business groups to try to help clarify new ideas.

Q85 Chair: I have got about three questions that I want to finish off with, all on totally different subjects. First of all, when you restructured Royal Mail and the Post Office prior to the sell-off, you said that the Post Office was set to become a mutual. That particular ambition seems to have disappeared. What has happened? What progress has been made, if any?

Vince Cable: It has not disappeared but it has not been realised.

Chair: That is a very subtle distinction, if I may say so.

Vince Cable: Maybe it is a distinction that is solved if you introduce the word “yet”. Clearly a mutual, by definition, involves the consent of the postmasters and postmistresses, and we are working with them. It was not the first priority. The first priority was to stabilise the network, which we have done. We are now in a remarkable period; we have got more outlets than we inherited, which goes very much against the historic trend. The Post Office network is going through a transformation and modernisation process, including performing financial services, so that has taken priority. I would say that overall the Post Office network is one of our success stories, but mutualisation has not yet been achieved.

Q86 Chair: You are saying very little. Secondly, international students—according to a report yesterday, our share of the world market has dropped from 36% three or four years ago to 32.5% now. What do you think are the reasons for that?

Vince Cable: It is disappointing. There are several reasons. One is that some of the competitor countries, if we can call them that—the US, Canada and Australia—are more aggressively competing for these students, whereas the focus in the UK has been more on the potential abuses to the system and introducing restrictions. We do not have a cap on overseas students, but the visa requirements are more testing than they used to be. There was some genuine abuse, but, as you know because I have told your Committee before, I certainly regard overseas students as a bonus to the economy and something we should be trying to encourage, providing they are bona fide. There are one or two particular features of the system that I would like to see looked at again that would make us a more attractive destination. The study-to-work route is open but is quite testing in terms of the time periods and the salary levels required, and some students find other countries more accommodating in that respect. Probably the biggest problem, if I am frank with you, is the rhetoric. If you are in the Indian subcontinent, you hear a lot of very negative rhetoric from the UK. This is less true in China, where our numbers have grown very rapidly.

Q87 Chair: Would taking students out of immigration statistics help?

Vince Cable: It would be a rational thing to do, because students are not immigrants. The reason why they are not, as I understand it, is that there is a United Nations convention that defines anybody who comes into the country for more than a year as—

Chair: But other countries have managed to do it.

Vince Cable: They have.

Chair: I am concerned, because I know we have got Scottish Members who need to get into Scottish Questions.

Vince Cable: That would be an advance if we could achieve that.

Q88 Chair: In 2004, you advocated the abolition of the BIS Department. You have been Minister for five years. What changed your mind?

Vince Cable: It is a totally different Department. In 2004 it was the Department of Trade and Industry; a lot of its work was about energy, which is now done somewhere else. We now have universities, FE colleges and science, which were not in the Department before. It is a fundamentally different Department. I have changed my mind in the sense that I think an active industrial policy of the kind we now have through the industrial strategy, which I was highly sceptical about a decade ago, is right and has been vindicated by the work we have done.

Chair: Thank you, Minister. On that note, we will leave it. I will reiterate what I said before: thank you for all your assistance in our inquiries over the years.