

Public Accounts Committee

Oral evidence: Financial support for students of alternative higher education providers—follow-up, HC 1097

Monday 16 March 2015

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Members present: Margaret Hodge (Chair); Mr Richard Bacon; Guto Bebb; Meg Hillier; Dame Anne McGuire; Austin Mitchell; John Pugh

Sir Amyas Morse, Comptroller and Auditor General, Gabrielle Cohen, Executive Leader, Peter Gray, Director, and Richard Brown, Treasury Officer of Accounts, were in attendance.

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

Q1 Chair: Welcome. We had hoped that this would be a very short session, but I think it is going to be slightly longer, given the most recent Report we have had from the NAO on the disabled students allowance. Let me start by saying that I welcome the progress that you have made on the alternative education providers and we will come back to that. However, I was deeply depressed, Mr Donnelly, to read this Report, which emerged at the end of last week and which I read over the weekend, on disabled students allowances. We will deal with the detail of the Report, but first may I ask you about a general issue?

If you look at this—Peter Gray may have the previous Report to show us—it seems so obvious that there were red flags all around the place. Your own information was telling you that something was terribly wrong. If you look at figure 3 and—Peter, have you got the other Report that you showed me before? The one from—

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Peter Gray: Figure 7 and figure 8.

Q2 Chair: It is a bit boring to go into this, but if you look at figure 7 in the Report in which we discussed the action that you took and figure 3 in the Report that we are considering today, what you see totally hits you in the face: data, which you yourself had, that demonstrated that something might be going wrong. Yet somehow, somebody—you, the Student Loans Company or internal audit—ought to have picked this up, and you failed to. Somebody, somewhere along the line, should have seen what was going wrong, and you failed to do so. Give me some understanding of why, in such a short space of time, we are finding failures of using information properly and then we are dependent on whistleblowers, really, which is where we got this information from.

Martin Donnelly: Chair, I agree with you. I am not at all satisfied with how we handled this. There are quite a lot of lessons for us to learn and it is my responsibility to ensure that they are learned and put into practice. I do not want to do anything other than underline that. We have not got this as right as we should have, and you are right that that graph absolutely shows it up. The points that I want to make are not designed to get away from that reality.

Part of the issue was that we were taking over a system that had been run by local authorities, moving it into a centralised place. We were very concerned, rightly, that disabled students should of course receive their entitlement. There were issues early on about how easy it was for many universities and other bodies that had been used to doing this in-house or in a very close relationship and were finding it difficult to move straight away to more competition—having two quotes—to ask, therefore, to be given a sort of let-out to continue, more or less, with their current system. Having said all that, I do not think that we got the balance right here. I am happy to go on and say what we are doing about that now, but you might want to pause on that.

Q3 Chair: I do not know whether you want to say anything from the Student Loans Company. What happened—look at paragraph 2.2—was that somebody wrote to you in 2010 and somehow nobody took any notice of that. I do not know who they wrote to, actually. Do we know who they wrote to in 2010?

Peter Gray: The disabled students allowance quality assurance body.

Q4 Chair: So they wrote to them in 2010. The quality assurance group then twice questioned the company. The company tells them to get lost, in effect—that is what paragraph 2.2 tells us—so it goes over to you at the Student Loans Company.

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Mick Lavery: The issue was raised with us in 2010 directly. We discussed that with the DSA-QAG—the sort of accreditation body for the assessment centres—and BIS, and asked for guidance about what to do re the allegations.

Q5 Chair: Why did nobody do anything?

Martin Donnelly: The honest answer is that this was never raised to a sufficiently senior level, and that is our responsibility. I have taken steps with the team and the management to make sure that this cannot recur. I think there was a genuine lack of clarity about who was responsible for what—it was early days in the new system—but I do not think that is a satisfactory explanation.

Q6 Dame Anne McGuire: What do you mean: it wasn't elevated to a sufficiently senior level? Surely at whatever level this pitched in there were some question marks about the practices. Was there a blockage at one point? Did somebody say, "Well, actually, this is not really a high enough priority."? Dare I say it, some disabled people might say, "Well, it is about disability, we'll just put it to one side."? I am interested in where the blockage came.

Martin Donnelly: I think it was an issue about whose responsibility it was to pursue the question. Initially, people asked the DSA quality assurance group to do so, but when there was pushback to say, "We don't think that you have the right to do that," we did not pursue it further at that stage.

Q7 Dame Anne McGuire: Did you just put it in a box and say "Right, I've done that. Let's move on to the next issue."?

Martin Donnelly: Certainly there was no further follow-up that I am aware of.

Q8 Chair: However you look at it, it looks to me like there has been misuse of public money. If you look at the average payment to Claro Learning, they were getting £4,759 per student, whereas the average payment across all other disabled students was £2,227, so they were getting more than double the average. The percentage of such students at Plymouth university was 9.3% against a national average of 5%. There is no understanding even today of whether the demography of the student cohort has any bearing. 5% of the entire budget was going to one institution. All these are red flags to me.

The figure that the NAO comes up with—on page 15, paragraph 3.4—is that they were paid £4.8 million and should have been paid £1.7 million on the generous estimate, assuming that these were students at the higher level of need. It beggars belief a bit. If you look at the accounts of Claro Learning Ltd, they made a 22% profit. They made a massive

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amount of money out of this—a 22% profit out of public money. They paid themselves a hunking great amount. This couple who owned the whole thing paid themselves dividends of over £280,000 in 2012 and of £338,400 in 2013. This is public money—public money. I cannot see, first, why none of these flags were ever noticed and, secondly, why you have not just cut them out.

Martin Donnelly: Can I comment separately on several of those important points? In terms of the number of students getting disability allowance, that is done objectively through the medical system. There is some sign that Plymouth offers a very good service to people with disabilities, and therefore more of them than average choose to go there.

Q9 Chair: I don't want to interrupt you, but the whistleblower who originally wrote to me said in the letter, which you probably never saw—we are protecting the whistleblower—"There was a general attitude that students with mild levels of dyslexia were playing the system to receive thousands of pounds of free computer equipment to support in writing their essays/assignments. Those with complex and genuine disabilities felt they were becoming unfairly stigmatised and were openly discussing giving up their support." So the assertion there is not that Claro Learning or Access South West were finding more students with genuine needs, but actually, that they were getting more business by giving students more than they needed at the low level, with so-called dyslexia. So I am not sure that what you were saying is true.

Mick Lavery: One of the big issues here for us is that the system is wholly manual, so every case that we look at requires, first of all, a consultant or a doctor to verify that there is a disability. We then refer the individual to an assessment centre, which assesses their needs and then sends back their recommendation. So everything is looked at on a case-by-case basis, and because it is a manual system, one of the difficult things is trying to get aggregated management information. Some of the red flags you rightly talk about are not obvious when you are dealing with a wholly manual system, where you can check on a case-by-case basis whether everybody complies with the guidance, but it is very difficult to aggregate the information. Now, that is something we are doing something about. I have been in front of the PAC before, and I have talked about our systems being improved, modernised, automated and invested in. Over time, with those management information systems and the analytics we are now employing, we will be able to do very straightforwardly some of the cuts of data and information that will show anomalies in this area, but it was a case-by-case basis, which meant that lots of these issues were not spotted.

Q10 Meg Hillier: On an individual basis, we have had an apology from Mr Donnelly about some of what happened, but, surely, at an institutional level, you could see what chunks of money were being spent. Did you recognise any of that? Did you see any outliers?

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Mick Lavery: Not unless someone specifically went in, did an exercise and gathered all the information for an institution.

Q11 Meg Hillier: Universities have codings, don't they? There was no use of those codes to give the money out from the central pot?

Mick Lavery: I am sure there was information, but it was not analysed against the benchmark or it was not analysed against other institutions.

Q12 Meg Hillier: So, basically, it was just giving out the Smarties and not really checking all the results.

Mick Lavery: It was giving out grants against the guidance. On a case-by-case basis, it was making sure that, where anybody was awarded support, it was within the guidelines.

Q13 Meg Hillier: Does the Department do any analysis of what this actually means for students? The Chair mentioned the stigmatisation of students who may feel they need more but who are not getting it. I recognise that this is not just about bean counting, although that is a big part of what we are looking at today, but does the Department do any qualitative analysis? If not, do you have any plans to?

Martin Donnelly: That is a new issue for me, Madam Chair, and we will look at it. I had not seen any evidence of complaints from students who were benefiting from what is a very important allowance.

On one of your other red flags, I would add that in October 2013, which is later than it should have been, we did write to Plymouth, saying, "You are giving everybody a standardised assessment. You need to do this on the individual needs." That produced a significant decrease in the amount being paid per student, from about £4,000 to about £1,500—those are the figures I have. So we did take action to deal with that question, while trying to make sure that we were protecting the students that needed the funding.

Q14 Chair: Why didn't you sack them? I just can't understand why you have not sacked them. This company has behaved outrageously.

Martin Donnelly: The short answer, I'm afraid, is that our report—we did an internal audit report, and we had the NAO's very helpful audit report—did not flag up any misuse of public money. Our report did not, I think, go far enough into the perception of conflict of interest, but nor did we find any evidence on which we could take further steps. We are

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now strengthening the guidance on conflict of interest, with the NAO's help, because this is something we need to look at.

Q15 Mr Bacon: In other words, they can run rings round you and make a really fat margin, and your contracts with them are so loosely written that they can carry on and there is nothing you can do. That is what you are saying, isn't it?

Martin Donnelly: We are now doing things to tighten that up—

Q16 Mr Bacon: Sorry, but that wasn't my question. My question was, "That is what you are saying, isn't it?" If I am putting words into your mouth and inaccurately representing you, you can say, "No, Mr Bacon, that's not what I'm saying." If, on the other hand, it is roughly what you are saying, you can say, "Yes, Mr Bacon." Either will do—yes or no?

Martin Donnelly: You used certain terms that I, without being too much of a bureaucrat, would have to be careful about. We did not find any evidence of wrongdoing, but the fact remains that it is not clear that all that funding was necessary for the purposes—

Q17 Mr Bacon: What I was talking about was the looseness with which you let these contracts, so that they could be interpreted extraordinarily liberally and leave you in a position where you could not do anything. That was my point.

Martin Donnelly: Yes is the answer to that—until we did something in 2013.

Q18 Chair: Mr Donnelly, you say you did not find evidence. I do not buy that. You are left with the question of your own internal audit. Did you know, when you did the internal audit, that the cost per student in Plymouth was £4,759 against an average payment of £2,227?

Martin Donnelly: I think we did know what was happening in the past, yes.

Q19 Chair: Did you know when you did this that Plymouth university was receiving disabled students allowance for 9.3% of its student cohort, against a national average of about 5%?

Martin Donnelly: Yes, and as I said, that was not necessarily a problem.

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Q20 Chair: Well, you don't know. According to the whistleblower's letter, it was, because it was bringing the system into disrepute in the university. Did you know that they were making a profit of 22% on all the money?

Martin Donnelly: I did not personally, but I assume that figure was available.

Q21 Chair: Internal audit should have known, shouldn't they? If I were doing an internal audit—this took me two minutes of sniffing around their report and accounts. I assume that internal audit would have done rather more rigorous work on the report and accounts.

Martin Donnelly: I think internal audit were looking at some specific questions of whether there had been any fraud or misuse of public money.

Q22 Chair: Did they look at the report and accounts?

Martin Donnelly: I don't know. I would have to write to you on that.

Q23 Chair: Did you know what this one institution was eating up? I do not know what the proportion is—perhaps Madeleine Atkins will help. Plymouth must account for a tiny proportion of students, less than 1%.

Professor Atkins: Yes.

Chair: Let's say 0.5%—I am guessing, but probably that is not so mad, is it?

Professor Atkins: I will come back to you on the figures, but you are in the ballpark.

Q24 Chair: I am not being mad, so with less than 0.5% of the student body it was collecting 7.5% of the total amount. Did you know that?

Martin Donnelly: Arithmetically that is the case, yes.

Q25 Mr Bacon: Did you know it?

Martin Donnelly: I am not sure that that is what we were focusing on. In the audit report, we wanted to check whether there had been any fraudulent use of funding and whether the separation was being effectively worked. We did not find any evidence of misuse of funding—

Q26 Chair: How do you know that there has not been fraudulent use of funding? I just do not believe that you know it.

Martin Donnelly: Both we and the NAO have looked at that and neither of us has found fraudulent use of funding. Amyas, you might want to comment.

Sir Amyas Morse: Not to be unkind, I think the answer is that if the guidelines are sufficiently broad it is difficult to show fraudulent use. That is the point that you were making—

Q27 Mr Bacon: That is exactly the point. With the individual learning accounts, some 13 or 14 years ago when we took evidence on that—2001 or 2002, somewhere around then—much of the “fraud” was not fraud. Because the rules were so loose, you did not need to commit fraud in order to get money that you really should not have got. Loose rules were the problem and all these years later, we appear not to have learned the lesson—that was alternative providers of education, funnily enough.

There is a whole chapter on that in my book and I was not going to include it, because the publisher said, “No, that one’s old hat,” but I said, “No, I want to include it, because it’s such a”—[*Interruption.*] Sorry, you can get the 10 quid later. We have a thing called PAC bingo, any mention of Tech City or my book gets 10 quid. The reason that I insisted on including that chapter was that I thought it was such an egregious example. Here we are, 12 or 14 years later, and you are making exactly the same mistakes all over again. It is the same Department. Admittedly, the adult education function has moved from DFE to BIS—that is the only reason you are here—but it is basically the same people. Apart from you.

Martin Donnelly: I believe that there are differences between these two cases, between what happens on the alternative providers, which we will come back to, and what happened in this case. Part of the problem in this case—this is not to say that we got it right; we did not—was that early on, because we were moving to a more formal structure, we gave universities the opportunity to have a standardised approach as well as an individual one. That did not prove to be good value for money and we were slow at picking up on it. We did so in 2013 and we have tightened the system further now. You may not agree, Mr Bacon, but I genuinely believe that there is a significant difference between this case and that of the alternative providers.

Q28 Meg Hillier: Did you go back to any of the students who have been given this large amount of money and get anyone else to assess them, because I am sure that many of those students would have willingly gone through that to save public money? Did you try to do that?

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John Pugh: I'm not sure about that.

Meg Hillier: It is worth trying.

Martin Donnelly: The assessment process of need is independent. We did not go back to individual students, no. What we said to Plymouth was that it had to start using the individual assessment process, not a standardised maximum that people might need up to and which they would offer the students if they wanted it.

Mr Bacon: For clarity's sake, I was not comparing this one with the alternative providers one; I was comparing both of them with the ILA. The similarity in those cases, leading on from what the CAG was saying, is that if you have guidelines that are broad enough, it is very difficult afterwards to show fraud. You do not need to commit fraud. You can do something pretty outrageous and you are still within the rules. That is the point that I was making. There is a great similarity between this hearing and the one we had on ILAs. The permanent secretary at the time was Sir David Normington, and his first remarks were a sort of grovelling apology. He was dissatisfied with how everything had gone, he regretted it very much and he did not try to defend it. You did exactly the same, so there are some very big similarities. What interests me is the way the system does not learn from these previous errors. Obviously, if everyone bought my book, they would learn, but they don't—not enough of them, anyway.

Q29 Austin Mitchell: Richard Bacon's book is brilliant—it's available from Biteback; I've forgotten the price—but I think you are right that there is a difference. With individual learning accounts, as I read it, the crooks moved in on a considerable scale to exploit fairly lax rules. This is a matter of one firm and of judgments by that firm. There are lots of judgments involved: one is the medical judgment about whether the kid gets assistance and what they need; another is on whether they will actually need it in the circumstances of the university. It could be argued that the course at Plymouth, being more rigorous, better and tougher, needed a higher level of provision than other courses—I don't know. Paragraph 14 says the difference lay in "recommending the maximum level of support a student might conceivably need, rather than the most likely level of support the student required". What instructions were assessors given about which of those two levels of judgment they should apply. Was any instruction given?

Martin Donnelly: It is not clear to me what instruction was given, but the practice was clearly that they were paying up to the potential maximum, which is why we wrote and said, "Do not do that." Obviously, that money was going to the student, but the problem was that it was not necessarily needed.

Q30 Austin Mitchell: But other assessors were making lower assessments, weren't they? They were using a different method of judgment.

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Martin Donnelly: Yes, they were. That's right. It is Mr Bacon's point: our guidance initially was not sufficiently rigorous in saying every payment had to be individually justified, not in terms of a potential maximum need over the course.

Q31 Dame Anne McGuire: Have you made any investigation since all this blew up of the situation in other universities? It is not so much about how much an individual student has been paid, because you are right to say that, in many respects, that is a matter of an assessment and two people with very similar disabilities can actually need different levels of support, so we have to be careful about making judgments across the board. However, in many respects, the core of the issue is that the assessment organisation was the same company as the provider of the support. That is a serious issue, which is perhaps not contained just within Plymouth university, so I would like to hear whether you have checked what is happening in other parts of the country.

Martin Donnelly: Yes, you are right: it is something which is not confined to Plymouth. Although Plymouth did follow the formal conflict of interest guidance and declared the issues, and our audit checks made clear that we did not find any evidence of what you might call unacceptable or illegal practices, the perception here is, frankly, none the less a worrying one. That is why we are putting out in April new guidance on best practice, and we will want to have another look specifically at Plymouth, but also at other universities. Universities—Madeleine may want to comment on this—have had to move from a system where they did a lot of this internally. They also wanted to vet the people they used to make sure that strangers were not wandering around their campuses—you can understand that. They did not know enough providers, and the market had not developed. Well, that was some years ago—it was five years ago. Over the last five years it has moved, so we now expect multiple quotes to become the norm and we are setting up an improved oversight group. We will have better evidence, so that these issues at the end of the bar chart will not spring out on us. I think that is all very good, but it is a pity we did not do it earlier.

Q32 Dame Anne McGuire: There had been a declaration that these two companies were the same company.

Martin Donnelly: There was a declaration of conflict of interest, yes, and chinese walls.

Chair: With a husband running one and the wife running the other.

Q33 Dame Anne McGuire: I would have thought that that declaration would have been another red flag to say, "Hey, what is happening here?" No? Or was the funding agency not aware that there had been a declaration of interest?

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Mick Lavery: We were aware, but we were acting within the guidelines. We get an assessment from an assessment centre, we look at it on a case-by-case basis—

Q34 Chair: Hang on a minute. It is not guidelines, it is common sense—just common sense. You have got a husband, a wife and a load of money. You are going through all those things, but it is just common sense—it is a red flag.

Martin Donnelly: We did therefore ask our internal audit team to go in and look at this specific issue. They did not find any evidence of wrongdoing, but that is not the whole story. I think that is an issue that we, in consultation with the NAO, are taking up with our own internal auditors, because we need a wider view—

Q35 Chair: They are not very good, either.

Martin Donnelly: On this case, they were not as good as they usually are.

Chair: They were terrible.

Q36 Dame Anne McGuire: So you are hanging your hat on the fact that legally nothing untoward was happening, but there was bad practice—is that what you are saying?

Martin Donnelly: I think the practice left a lot to be desired in the perception. I am not accusing anyone of dishonesty—

Dame Anne McGuire: That is why I said “bad practice.”

Martin Donnelly: —but we need to tighten up the guidance around conflicts of interests to make very sure that it always passes the sniff test.

Q37 Chair: To put it another way, Mr Donnelly, do you think public money was properly spent?

Martin Donnelly: There are real value-for-money issues in the first years of Plymouth.

Q38 Chair: Do you think it was properly spent? You are the accounting officer.

Martin Donnelly: I am not satisfied with the value for money of all of the spending.

Q39 Chair: Or proper expenditure?

Martin Donnelly: I do not believe that there was any fraud—I see no evidence of that—but I do not think that that money was all properly spent.

Q40 Chair: According to the documents there was a verbal agreement that they would be sole providers—this is on page 14 of the Report. They were given a nod and a wink by Plymouth university so that—I cannot remember—I think the husband did the assessments and the wife’s company would get the money. Para 2.10 says, “The arrangement, which is in the form of a verbal agreement rather than a formal contract, is known to BIS.” Why did BIS allow that?

Martin Donnelly: This is an issue—it occurred in various providers—where there were a limited number of suppliers, or a university wanted to work with one favoured supplier, because they knew the people, they had all passed the security and safety provisions for working with disabled students and so on. Consequently, during this transition period into a new system, it was allowed. But it is something that we are concerned about and that we are tightening up on as we go forward, because there have to be additional quotes going forward. It is not enough just to have one provider—

Q41 Chair: But there weren’t then.

Martin Donnelly: There weren’t always then, no.

Q42 Chair: Okay, it was a nod and a wink and they got the business, but in those circumstances I cannot understand why you, Mr Laverty, or your officials, Mr Donnelly, did not do checks. You say, “Oh, it’s a really difficult field and we have only got one supplier locally,” but that in itself would have been a reason for doing a check, even though you had a manual system. We used to do checks when there were manual systems. You do not have to be digitised to do the checks. I do not understand why you did not do any checks.

Mick Laverty: We checked every case on a case-by-case basis.

Q43 Chair: But you did not do any sensible, systemic check.

Mick Laverty: We checked with BIS. We checked it on a case-by-case basis. We looked at whether it was within the guidelines.

Chair: Did you not think?

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Q44 Meg Hillier: They were all at the top level, and no one thought, “Aha, this is funny. Shall we go and look at somewhere else to see whether it is comparable?”

Martin Donnelly: May I just add that the issue of preferred providers was by no means unique to Plymouth. It was quite widespread in the sector.

Q45 Meg Hillier: But it is the preferred provider combined with the higher level of allocations. My point to Mr Lavery is that if Plymouth comes back with this higher figure, yes, on a case-by-case basis, you might look at the notes and say, “Oh yes, that’s fine,” but if, as an institution, it is spending at this level while other institutions are typically spending at a lower level, surely that would have been a flag, notwithstanding students’ individual needs, that warranted a further look.

Mick Lavery: That’s correct, but we do not have the management information in the level of detail required to do that sort of analysis.

Q46 Meg Hillier: Could you not have asked for it?

Mick Lavery: We are looking to get it now. We are improving the systems and doing the analytics.

Chair: You don’t have to wait for digitisation.

Meg Hillier: It’s just that it has been five years since the individual raised the concern—probably not with you, Mr Lavery, but in the system. It seems that everyone thinks that someone else was looking at this.

Q47 Chair: And also that, somehow, because it is manual, you do not check—that you have no systems because it is manual. It would be mad if we did that across the whole of Government.

Sir Amyas Morse: I think it is fair to say that yes, it was according to the guidelines, but I suppose I sit back and ask, “Does anything suggest itself from this?” I wonder whether you have anyone who has a hunting instinct. In other words, when things look a little odd, is there anyone who goes on an inquiry and is sceptical and thinks, “I wonder what the heck is going on out there. I am going to shake the trees and see whether I can find out what is happening.”? I am trying to come up with a suggestion that might be of some use. If I look at the alternative providers, you have taken very vigorous action and the Committee is very impressed with that, but I am wondering whether you have people who are highly sceptical and willing to go on the hunt. As a thought, I wonder whether people are on the lookout in a sufficiently vigorous way for things that they might find. That is the only thing I can suggest.

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By the way, I do not think that that is easy to achieve. I am not trying to make obvious comments, but perhaps you should have people who are rather sceptical and willing to hunt things out. Even with internal audit, I do not know just how aggressive it is. If there are straws in the wind, it might be that if you had some group of people who were more willing to go and dig into it, they might protect you a bit more. I can see that you are reacting well to things once you know that they are there. It is just a thought: perhaps something of that sort would make a bit of a difference to the timing of when you discover these things.

Q48 Dame Anne McGuire: That instinct is one of the skills that both internal and external auditors should have. An internal audit is not only a tick-box exercise.

Martin Donnelly: I agree.

Dame Anne McGuire: I endorse what the Comptroller and Auditor General said.

Sir Amyas Morse: It was just a thought, anyway.

Q49 Chair: I have a final question on two things. The gentleman who did the assessments is Mr Nigel Larcombe-Williams, who is married to Mrs Moore—I think she was Larcombe-Moore? Anyway, they are the two people who made an arm and a leg of it. We only got the Report on Friday, but according my very brief attempt this morning to understand the situation, they also make money from the university of Southampton, where the company holds the contract to deliver all mentoring support; they are in Cornwall college—I don't know whether that is linked to Plymouth university—and they are in Truro and Penwith college; they are in university college Falmouth, the university of Bristol and Cardiff university. In the short time available to us, we have only looked at Plymouth, but they are making money up and down the south-west. With this record, I think that you ought to look at their future position. It is no good telling us that there is no other show in town. The Committee does not believe that taxpayers' money is being properly protected and we do not think that these guys are serving the public interest.

Martin Donnelly: May I underline that from the next academic year, every quote will have to have two providers in it?

Q50 Meg Hillier: I think the Chair mentioned earlier that some students had been given laptop computers for a low level of dyslexia.

Chair: That was in the original letter.

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Meg Hillier: Yes—from the original whistleblower. An allegation has been made that people were given more support and possibly more time for doing exams and stuff. Have there been any repercussions for the awarding of degrees or qualifications as a result of what has happened?

Martin Donnelly: I am not aware of any, no, but if we get any additional evidence on that point, we will make sure it is looked into.

Meg Hillier: That is potentially very serious.

Q51 Chair: Can I make a plea to you, Mr Donnelly? Go and hunt it. I think that is what both Anne McGuire and the Comptroller and Auditor General are saying. I feel that right the way through, until we got involved because of the whistleblower's letter, you did not hunt in what was clearly an issue that was full of concerns about whether public money was being properly spent. If our successor Committee finds yet further things—it is just jolly distressing.

Let's go to the other bit of it. I was going to turn to you, Professor Atkins, because you raised concerns about this before they set off down the road of funding alternative providers in this way. What is your view of the new controls they have put in place?

Professor Atkins: Thank you, Madam Chair. We have been working to support BIS through this period in a number of ways. Through that action and, indeed, the work that we have done matching databases and other things, we can see that the controls that are being introduced are more and more similar to the controls that we use in the HEFCE-funded part of the sector.

Q52 Chair: And you did not need legislation to do it, did you, Mr Donnelly?

Martin Donnelly: No. We still think legislation would be very desirable for clarity, for setting out very clearly who does what and so on, but in terms of where we are, we are introducing the higher education review from April for all of the alternative providers, which will bring them much more in parallel with the level of rigour applied by HEFCE in their sector.

Q53 Chair: But, just to be clear, when you gave evidence to us last time, the suggestion was that it was the lack of legislation that impeded your ability to properly regulate this. That was how I read it. I do not have the evidence here; maybe someone can find it for me. Now you are telling us that, again, since this was exposed by the National Audit Office and this Committee, you have actually been able to set all the controls in place without legislation. It might be better if you had instant access; I hear that. But beyond that,

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you have again been able to do something that you should have done three or four years ago.

Martin Donnelly: I would say—Madeleine may want to comment—that we have been doing this over the four years, through student number controls and improving the controls on quality. It has been a ratcheted-up process year on year. We have not waited.

Q54 Chair: It didn't feel like that when we looked at it. When is this latest lot of reforms going to come in? When will they all be in place?

Professor Atkins: The higher education review, I believe, is from 1 April of this year. I believe that the Quality Assurance Agency review has already been tightened to look at attendance and non-continuation—two other things that I believe this Committee was concerned about last time. Those are just examples of things already in place. Of course, we have the joint intelligence unit now up and running. We are simply supporting in this, but through BIS there is the rapid response investigatory team, which because it uses the GIAA as its lead has the right of access, which, as you said, was problematic before. That does not mean that legislation would not be helpful, but we have been able to put some of the things together.

Q55 Chair: I will take St Patrick's as the big example here. They own GSM, don't they? They are owned by the same company? How much public money do they have? What have you done to stop them getting all this public money?

Professor Atkins: I believe it is LSBF.

Q56 Chair: They own LSBF—London School of Business and Finance?

Professor Atkins: Yes.

Q57 Chair: I think I am right in saying that in 2013-14 this one college got in excess of £150 million of public money, some of which will have gone to students and lot of which will have gone to fees. Over £150 million in one year alone. Am I right?

Mick Laverly: I think it was £116 million in 2013-14.

Q58 Chair: For the two?

Mick Laverly: St Patrick's was £116 million and the London School of Business and Finance was £64 million.

Q59 Chair: £116 million plus £64 million: £180 million. And they were clearly—

Martin Donnelly: We do have a number of concerns about St Patrick's which have been investigated.

Q60 Chair: What have you done about it, Mr Donnelly?

Martin Donnelly: What we did, among other things, was put in the rapid response investigation team—

Q61 Chair: What have you done about St Patrick's?

Martin Donnelly: —into St Patrick's, to investigate what is going on. That inquiry is still under way. While it is under way we have suspended the payment of fees until we complete these investigations. We will also take account of the result when we set student numbers for all alternative providers for the year ahead, which we are about to do.

Q62 Chair: We had the hearing, when was it?

Martin Donnelly: Middle of December.

Chair: Middle of December. So we are now three months on. How long is this inquiry going to take?

Martin Donnelly: It should be finished very soon, because it started, I think, a couple of months ago. I would expect it to be finished in a matter of weeks. We will happily write to you or the successor Committee giving results.

Chair: I think we will not be here, will we?

Q63 Dame Anne McGuire: Do you have some people with hunting instincts on that team?

Martin Donnelly: Yes.

Dame Anne McGuire: You have some hunting instincts on that team.

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Q64 Chair: So you have suspended all payments. Just tell me from when. They have not had any payment of fees for so-called students, so-called attending, from January. Am I right? No fees paid since January?

Mick Laverty: They had no fees paid in the February payment run. Fees are paid in three instalments: 25%, 25%, 50%. They got no payments in the February instalment, which would have been 25% that was due in early February.

Q65 Chair: Right. Okay.

Can I go to you, Mr Bristow? I think it is in the letter you sent to me, Mr Donnelly: a lot of students—you might put a number on it—took money from Mr Laverty but did not enrol with you. What was the total number who took money, got the student loans and fees, but never enrolled on a course? Have I got this right? I have, I think.

Professor Atkins: May I help? We looked at this following the helpful suggestion from the NAO at the PAC, that there should be a reconciliation exercise because of the potential overhang. So we tried to match two datasets. There are some caveats around this: it is not a perfect approach, but it is the best that we had.

We closed the book, as it were, at the end of November—30 November 2014. At that point, as the NAO had suspected, in fact the percentage not registered was dropped to 14% from the 20% that the NAO had estimated. That is about 2,000 students. We could find 1,400 of those who had either dropped out or had transferred to another provider and were registered with another provider, leaving 600. We have been able, with some caveats, to track those 600. Of those, 450 are in five of the alternative provider colleges. My understanding is that both BIS and Pearson have both been taking action in those five colleges. I am afraid I do not have the details of the remaining part—the other 150—here.

Q66 Chair: That is very helpful. Presumably, those colleges include St Patrick's and London School of Business and Finance.

Professor Atkins: You are correct.

Rob Bristow: Perhaps if I can add that the registration processes that we have were designed not for the purposes of disbursing public funds, but for the purpose of us doing our resource planning for the quality assurance of the programmes. As soon as we recognised that there was a contribution we could make by matching the registrations more closely to

the enrolments, we took strong action to make it clear that institutions had to follow a 30-day rule.

We were helpfully given data by the NAO on specific gaps at an institutional level between our registrations and the enrolments. Bear in mind that we have no visibility into the enrolments. We only know what the college tells us when they come to register with us, not when they initially enrol. As a result of the data that we received, we have given out a number of final warnings to institutions for having too large registration gaps, and we have suspended two of them from approval to deliver our qualifications. The solution that is being put in place now, which is to make it a requirement that learners are registered on the course before student loan funding can be drawn down, is a very big step forward.

Q67 Chair: I might be getting a bit muddled, but 28% of the students not registered with Pearson but getting money from the Student Loans Company are starting on their second year, so they had fiddled the system for one year, and then they were fiddling it for a second year. Is that right?

Professor Atkins: I think it is perfectly possible for those students not to know that they had not been registered. That is the first thing I would say. Of course, they may indeed be diligently studying and going through their course. It is not an assumption that they are “fiddling the system”. We need to see their marks and their completion. It may just be that within that alternative provider, the administrative systems were not in good shape, and therefore they had not been registered, unbeknownst to those students. We don’t know that one way or the other, but we will know in due course whether or not they complete. I believe that Pearson has the completion data.

Q68 Chair: So you will know by—

Professor Atkins: Whenever the time comes through for the completion.

Rob Bristow: We will release completion data as we have it.

Q69 Chair: Have you any idea, Mr Donnelly, how much money has been lost to the public purse? I asked you that last time, and you provided some figures. When are we going to know how much money has been lost to the public purse?

Martin Donnelly: I remember well our discussion of this last time. I want to be short. Essentially, we have a clear figure on fraud. The figures that we sent you were a snapshot for funding that was given to people who had not proved that they should have it. Those figures have gone down further since then. Mick will be able to give you further figures. The

other point to make is that we aim to get all that funding back, either from the colleges or from the students. With the students, we have 30 years to do so.

Q70 Chair: When I looked through your letter—it is not the 9 March one, but the previous one—there are big sums. If I look at your annexe, you tot up the residency requirements over the four years, which comes to £15.6 million. That is money that went to people who were ineligible. It says “not necessarily ineligible”, but they had not proven their eligibility. Of that £15.6 million, you have got back £1.9 million.

Martin Donnelly: That was on 31 December.

Mick Lavery: Chair, I can give an update, if that would be useful.

Chair: Go on.

Mick Lavery: The figures are always at a point in time. I think the figures you have got are for 31 December 2014. The figure for “ineligible due to residency” was £15.6 million. That is the figure in the table that you were provided with. We have now recovered £4.6 million of that, which is up from the £1.9 million referred to at the time of the letter. A further £900,000 has been taken out of that total because further students have proved their eligibility. The figures move all the time; they are always a snapshot in time. As Martin said, we seek to recover the money on a continuous basis. It is always possible for individuals to provide further evidence, as we saw through the A2 EU exercise over time, to prove their eligibility.

Q71 Chair: Okay, so you are getting a bit more back. If you look at the next bit—1b—£21 million is owed to the Student Loans Company, because they didn’t attend the courses. That’s a different figure, isn’t it?

Mick Lavery: That is a different figure, and that has reduced as well. Of that £21 million, £4.6 million has been recovered, so that is £16.4 million.

Q72 Chair: Okay, so we’ve got £15.6 million plus £21 million. The next bit is the figure paid to EU students—under 3b—of which £24 million is due back, presumably not all at once.

Mick Lavery: No. All these figures are income contingent so—

Q73 Chair: Are you getting any of that £24 million back?

Mick Lavery: We are indeed. Tuition fees are easier to get back, but we automatically claw them back from the provider. Maintenance support—grants and loans—is harder to get back because we have to contact the students and, in most cases, come up with individual arrangements but, yes, we do continue to get the money back.

Q74 Chair: What are you expecting to get back of the £140 million that went to EU students? What are you expecting and anticipating realistically, remembering that future Public Accounts Committees will hold you to account?

Mick Lavery: I think it is almost impossible to say because—

Q75 Chair: Across the whole debt portfolio, what are you on now? 30? What is your current level of return?

Mick Lavery: I think the RAB—the write-off charge for the entire loans book—is something around 45% or 46%.

Q76 Chair: And for EU students, it will be much lower than that, won't it?

Mick Lavery: For EU students, I would say that the RAB charge should be slightly higher, rather than lower.

Q77 Chair: You will get less in.

Mick Lavery: The first thing to say is that this is a forecast based on graduate earnings over the next 30 years.

Q78 Chair: I understand all that, but at the moment we are getting 45% back from the overall cohort.

Mick Lavery: No, sorry, it is the other way around. Some 45% is not expected back.

Q79 Chair: Say that again.

Mick Lavery: 45% is not expected back.

Q80 Chair: Not expected back. Okay—I would expect that you would double that. You would go up to 60%, wouldn't you? I don't know. You must have a feel. You have been doing this for a bit of time.

Mick Lavery: First thing is that it is difficult to say. These loans are in play for 30 years before they become time-barred. They are income contingent. They are based on graduate earnings, which will change over the next 30 years. Actually, with the number of students going through, it is relatively early days. For EU students at alternative providers, they only had access to tuition fee loans from academic year 2006-07.

Q81 Chair: I am asking about EU students, not in alternative providers—they will be even tougher to get it back from—but your current experience of running the system for EU students on the loan.

Mick Lavery: It is absolutely impossible to say, because it is early days in a situation that could last for—

Q82 Chair: It is not that early days. It has been going for how many years?

Mick Lavery: Well, people were eligible for tuition fee loans from academic year 2006-07, and they were first due to be repaid from 2010¹. Only small numbers have gone through the system.

Q83 Chair: That is five years-worth of experience. Just give me a percentage. I cannot believe that you haven't got a figure.

Mick Lavery: The overall RAB charge is currently 45%. That is the estimation.

Q84 Chair: I understand that. I am asking about EU students in particular.

Mick Lavery: I don't think that there is a separate calculation done for the EU students.

Q85 Chair: I can't believe that. When I was a Minister, there was, I can tell you. We looked at EU students.

Mick Lavery: I'm sorry. If there is, I do not know it.

¹ For those graduating at the end of a 3 year degree.

Q86 Chair: There was always a problem about EU students. We looked at this and we had a figure on the EU students, which was different from the other one. Have you got a figure, or is it just that you are not sharing it with us?

Martin Donnelly: No. We do not write any of this debt off and we aim to collect it.

Q87 Chair: I understand that, but you are already saying that 45% of the debt owed will not be collected. On the EU students, the percentage that is not collected will be higher. It just will be; we all know that. I just want a feel from you of what it will be.

Martin Donnelly: No, we do not have an estimate of that.

Q88 Chair: Have you got one, Professor Atkins?

Professor Atkins: No.

Martin Donnelly: The RAB charge changes over time.

Q89 Chair: I know it is there. You are just not giving it to us. I know it is there because I had it. We are somewhere, but there is £140 million plus £15.6 million plus £21 million. That is beginning to be the money that has gone out. Am I right?

Mick Lavery: I don't think you are, Chair. I think that the £140 million that you are referring to is the amount that has been loaned to EU students. Not all of it is due to be repaid currently because students are still going through their studies or are earning under the threshold. I think £24 million of that £140 million is due to be repaid.

Q90 Chair: I understand that. So we could be talking about somewhere in the region of £100 million as the cost of this fiasco, could we?

Mick Lavery: No, I don't believe we could, Chair.

Q91 Chair: What do you think we are talking about?

Mick Lavery: I think the figures provided in the permanent secretary's letter of 27 February gave you a snapshot of time. Since those figures were provided, there have been reductions. We have just discussed some of them but in all instances, the figures have reduced as we have collected more money and more students prove their eligibility.

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Q92 Chair: But you are not prepared to put your head above the parapet and give us a figure. Have you any idea, Peter?

Peter Gray: No. As Mick said, there will be a higher amount that is not expected to be repaid, but I do not have a figure to put to that.

Q93 Chair: May I ask you something about this English qualification, Mr Bristow? We had evidence last time that people without basic English were entering some of these higher education courses. When are you bringing in the change on that?

Rob Bristow: We have immediately raised the guidance that we offer. Bear in mind that, as an awarding organisation, our role is to make recommendations to the institutions that deliver the qualification. They are the people who set the entry requirements; we make a recommendation. We have raised the requirement from a common European framework level B1 to B2 with immediate effect. We wrote to centres in December to tell them that that is our expectation. We have sent out reminders where we have seen that it is insufficiently clear on their websites what that requirement should be. We are getting replies confirming that people will be doing that. If they won't do it, they will have to explain their reasons to us.

Additionally, we have made a decision and are going out to consultation on moving from a strong guidance to a requirement for English, and we will implement that at the same time as we develop the new generation of the higher national qualification. We feel that we need to consult on that, if we make it as rigid as a requirement, to understand whether there are any unintended consequences of doing that, but our intention is to make it a firm requirement.

Q94 Austin Mitchell: When will it be enforced? I am rather peeved, because the Grimsby institute has had a great deal of trouble and expense in enforcing the English language requirement that has been imposed on them. I have tried to get them to be able to do the training so that they could work for it themselves, but I failed in that attempt. It is causing them a real expense, yet here we have evidence from whistleblowers that people just didn't bother and that it wasn't enforced.

Rob Bristow: When we offer it as guidance, the ultimate measure as to whether institutions have been recruiting with integrity is whether the students are able to achieve the required standard.

Q95 Austin Mitchell: But why is it so rigorously enforced on places like the Grimsby institute and not on these private colleges?

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Rob Bristow: This is something that we are enforcing equally across all providers and all institutions. In fact, the guidance level that we have gone to represents best practice among general colleges of further education, so we are quite confident that the level we have selected represents the practice that the vast majority of colleges are already carrying out. In fact, this is something that many alternative providers were already doing. This is now picking up those that had a lower standard, and it requires those colleges to implement that standard.

Q96 Austin Mitchell: And now will we have uniform enforcement for everybody?

Rob Bristow: Yes.

Q97 Austin Mitchell: When?

Chair: 2016.

Rob Bristow: We are uniformly enforcing the guidance by clarifying our expectations, then questioning institutions that are not carrying out those expectations. We will make it a requirement for courses delivered from 2016.

Q98 Chair: How are you stopping them recruiting off the streets?

Martin Donnelly: Recruitment is the responsibility of the colleges in the first instance, but we are concerned about the quality of students and the experience that they get. One thing we are doing is having a general duty on all colleges not to bring the sector into disrepute, If there are issues that may not be strictly illegal but that do not look to us as if they are helping the sector, we can and will deal with the colleges that are doing it, but we also need to leave them the flexibility to recruit in a way that brings in students who might not otherwise have thought of HE as a possibility.

Chair: We are going back over old ground.

Professor Atkins: May I just add to that? The clear principle, now that the QAA is using the higher education review with alternative providers as well as with those in the HEFCE-funded sector, is that it is the provider who must set the criteria for entry and who admits. It is never the agent who admits.

Q99 Chair: Who checks?

Professor Atkins: The QAA, when it does its review, checks the recruitment practices. The Competition and Markets Authority only a week or two ago brought out

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guidelines for all higher education providers pointing out where consumer law also now cuts into the kinds of information that are made available to potential students. We have a further strengthening of that from the CMA.

Q100 Chair: It does seem that you are putting in place the right things. It is just dreadful that you had to get to this. Let me make one final observation, Mr Donnelly, on both these issues. What we have got sitting in front of us is four separate organisations, almost, and what emerges—we get this in health as well, don't we?—is that nobody among you really took responsibility for this.

It is back to Richard's point that we know that when you try these innovative ways of attracting people into higher education, or whatever it is, there are dangers. You know that, but what I cannot understand is why you as the accounting officer, and indeed all of you, did not put in place a check—why you expected everybody else to do the checking and never did it yourself. There is a systemic issue here. Goodness knows who the next whistleblower will be, but we have now had it on alternative higher education providers and on the disability living allowance. I do not know what is coming next. You probably do, and until you sort out your systemic issue, you will always be subject to abuse of public money.

Martin Donnelly: It is a fair challenge to make sure that from outside, we are totally joined up, and I think we have made good progress on that. I would say that in terms of the alternative provider sector, we were aware of the issues that we were going to have to deal with, and we have progressively tightened the systems in place as evidence has become available of potential abuse or problems. That has got us to the stage we are in today, and it has also allowed us to provide education to 50,000 people who might well not have got it otherwise.

Chair: I know that there are some good alternative providers. Actually, they have set up their own little organisation to distance themselves from the people we are talking about. I understand that, and we all know that. But what you have allowed is for them actually to fall into disrepute because of what has happened. If we had not done our work on the back of, again, representations that we had, I do not think you would have done this. You reacted to what we said; you did not take the initiative and sort it out among yourselves. My experience as a Minister with the Department, and my experience here as Chair, does not fill me with confidence that you have the systems in place properly to guard our public money. I am sorry to say that, but I really feel that.

Okay, thank you. Let us hope that we do not have to see you back here again.