

Public Accounts Committee

Oral evidence: Overseeing financial sustainability in the further education sector, HC 414

Monday 19 October 2015

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Members present: Meg Hillier (Chair), Mr Richard Bacon, Deidre Brock, Kevin Foster, Mr Stewart Jackson, Nigel Mills, Stephen Phillips, John Pugh, Karin Smyth, Mrs Anne-Marie Trevelyan.

Sir Amyas Morse, Comptroller and Auditor General, Adrian Jenner, Director of Parliamentary Relations, and Peter Gray, Director, National Audit Office, and Richard Brown, Treasury Officer of Accounts, were in attendance.

Witnesses: Sarah Wright, Principal, Central Sussex College, Stuart Laverick, Principal, Heart of Worcestershire College, and Ian Ashman, Principal, Hackney Community College, gave evidence.

Q1 Chair: Welcome everyone to the Public Accounts Committee this Monday 19 October 2015. We are here to discuss the National Audit Office's Report into the funding of further education, and I have to say that it is a deeply alarming Report. It is not really an exaggeration to say of the future sustainability of the further education sector that it is at risk of financial meltdown, with nearly half of colleges—110 of them—in deficit at the end of 2013-14 and 70 predicted to be deemed financially inadequate by the end of the next academic year. So there is an awful lot to go through here.

A number of commentators—it is not just the NAO—are voicing these concerns: just today, Policy Exchange published a paper suggesting that funding levels in further education were unsustainable, in contrast to a booming university sector. When we hear from our main witnesses, we may want to probe them about whether this raises a question about whether the funding regime is being fair on colleges and students vis-à-vis the regime for universities.

The budget reductions, often at very short notice, and the shifting demographics that the Report highlights, the competition from schools, the lifting of the higher education cap and the focus on apprenticeships create a firestorm with further education at the centre, so I am delighted to welcome our first panel, who are people on the front line of all these challenges. From my left to my right, we have Sarah Wright, the principal and chief

executive officer of Central Sussex College—welcome Sarah; Ian Ashman, the principal of Hackney Community College, whom I know well, as an MP for Hackney; and Stuart Laverick, who is the principal of Heart of Worcestershire college.

I have outlined some of the headlines from the NAO Report. It creates a pretty grim picture of the financial health of your sector. The decline is happening very fast—faster than most colleges would have predicted. Could you outline the challenges for you, and why you think the decline has been so rapid over the last few years?

Q2 Sarah Wright: I think there are several reasons the decline has happened, particularly over the last five-year period. One of the main reasons is the real-terms cut of 27% in funding; that has been coupled with often late decisions, which do not enable colleges to plan ahead. The fact that funding is made on a year-by-year basis, and sometimes there are cuts to funding in-year, as happened recently, means that it is very difficult for colleges to plan their finances effectively. Those colleges that are moving into inadequate financial status or into deficit budgets have not been able to plan properly, because of the way that funding is set up.

Ian Ashman: We have experienced similar problems. We have had more than £2 million cut in the last four years off our education funding budget for 16 to 18-year-olds. The number of students we have to educate is exactly the same as it was five years ago, so there is an enormous efficiency squeeze—this is about not just the total volume reducing, but pressures of efficiency. At the same time, we face significant increases in costs: as well as losing millions of pounds, we have seen our pension contributions and national insurance contributions go up just this year by £300,000, demanding further efficiencies.

A particular challenge for colleges is the impact of this regular restructuring, often, as has been said, at very short notice. During the summer holidays, my college completed its budget based on a loss of £1.4 million of Skills Funding Agency money; when I came back from my summer holidays, I discovered, 10 days before the start of the financial year, that we had lost an additional £624,000—an enormous additional amount—at no notice. We are left, in that case, having to close classes and to pay teachers their redundancy and, indeed, to pay them in lieu of notice, because we do not have time to make them formally redundant in a proper way.

That redundancy is one other thing I would highlight. One of the consequences of the constant reductions in our budget is the cash that is disappearing out of the sector because of the costs of restructuring. During the last four years—and we pay at statutory minimum—we have had to spend over £3 million on redundancy payments. Nobody funds those; they come straight out of our bank account. Those restructuring costs are adding substantially to the financial ill health of the sector, and they really do need to be addressed.

Stuart Laverick: I think that one of the other challenges is that our funding comes from various sources, including the Higher Education Funding Council. When the number cap was taken from the universities, many colleges found there was a lot of competition for our HE work, which was a perfect storm. Again, that was an example of something we had not expected. When it came in a few years ago, it made things very difficult for our budgets.

Higher Education has been a relatively strong area of performance for the Further Education sector in terms of quality and progression, but it is also an area where we have made relatively large contributions, so it has been financially important—beyond its actual size in the service mix. That was another factor. Again, that is one of those points that emerged somewhat unexpectedly when the cap was lifted. People said they were surprised that there was competition from the new universities, rather than the collaborative model they had hoped for, but I was not surprised. I think it should have been foreseen.

Q3 Chair: You touched a bit on what we could call the commercial challenge, if we are talking in terms of competition, and you have all highlighted the challenges of late-notice funding and the annual budgets, but perhaps you could highlight a little more what the particular financial challenges are, because there are a lot of different pots of money funding what you do. Sarah, could you expand on what is happening at your college?

Sarah Wright: My college is in very particular and peculiar circumstances—a very extreme version. For example, when I arrived in January 2013, I had to go straight into a significant restructuring programme. It cost £5 million to achieve that programme, because we had staffing that was too high for the size of the college. It is fair to say, though, that the situation of my college has been really amplified because of the cuts to funding year on year.

In Central Sussex College, we are in the middle of a financial recovery programme. In fact, we made a surplus budget last year, but that was because we were able to do a lot of ESF work over the year. This goes back to Stuart's point: because we have funding from a whole range of different funding bodies and other funding streams, you cannot possibly predict that you will be able to be awarded additional ESF moneys during the course of an academic year. We did; that was wonderful for us, and we successfully delivered it, but it is not something you can write into your budget at the beginning of the year, so you are in a position of almost having to move to the worst-case scenario rather than acknowledge moneys that may not in fact come in. All of those things, together with very short-notice cuts to funding, make it almost impossible to provide an accurate prediction or forecast of your budget.

Ian Ashman: The challenge of diversification of income is one that the sector has been trying to rise to. Clearly, we recognise there are very tight public finances. We have been surprised by the scale of the reduction that has affected FE, and we feel we have borne a disproportionate share of the public funding reduction, but part of our response is a proactive one, to try to engage with new forms of income, with commercial activity and with ESF, which has been mentioned. Colleges have been taking 14 and 15-year-old students. My own college has been working much more to take students with very high levels of special educational needs. One of the challenges is that these are new income sources for us, and they are much less predictable. The SFA and the EFA pay us on a profile; we get a payment every month that we can count on. As we go into these more diverse sources of funding, we are finding that they are much less predictable, as has been mentioned, which makes our budgeting and forecasting a more complex task than it has been.

Stuart Laverick: In terms of being pleased with our ability to forecast, given all the uncertainties, I think we have managed it. It is a challenging environment, and it is difficult to get that right.

It is important to stress to the Committee that there have been a lot of proactive approaches. Four years ago, my college was Worcester College of Technology. We merged a year ago with North East Worcestershire College. We had been working on that for four years, in anticipation that we had to look at our cost base. Both colleges previously had good or outstanding financial health, and we still have that. Even with all those changes—we have invested heavily in technology; we already have 15% to 20% of our delivery online—and despite all those investments, it is still very difficult, given the funding, and in terms of what we need to achieve, increasing class sizes and given our commitments.

We respond to our local enterprise partnerships in order to see what the priorities are—rightly so. Those are changing. We need to move into those priority areas even more than we have done, and we have always been pretty well focused. It is a challenge when you are re-engineering with the process innovation and product innovation you need to realise. That is on top of the funding cuts. We need to be relevant. We need to be vital. We are, but that has its financial challenges.

Q4 Chair: What impact does that have on the education you are offering? Ian Ashman, you mentioned you had been having to cancel classes, sometimes at short notice. What happens if you have classes that are not viable? What happens to the students? It would also be interesting to tease out if there is any tension between the apprenticeship programme and the adult skills budget.

Ian Ashman: We have been reshaping our curriculum offer, and obviously Government has had a strong priority around apprenticeships. In the case of my own college, we have gone from having about 100 apprentices five years ago to now having 1,000 apprentices in learning, and we have therefore been able to take up some of the apprenticeship money that has been available. We have also taken up the offer of loan finance—students aged 24 and over on level 3 and above courses can now access a loan. We have had some challenges there, and the Government's own figures show that, in urban and poorer areas, loan take-up has been lower, so we have gone into those things and we have seen some reshaping of our offer.

We have also addressed the Government's agenda around English and maths and introduced English and maths programmes for every 16 to 18-year-old who does not have grade C or above. So there has been a reshaping process that has taken place in response to Government priorities. Obviously, with such a big cut—nearly £3 million in my own case in the Skills Funding Agency adult budget—we have had to close programmes. We have tried to do it in a way that has the least damaging effect, but in the most recent case that I quoted, the £624,000, the biggest chunk of that—nearly half a million pounds—was specifically English language programmes for unemployed people where the Government had given us a new funding stream. I find it strange that at a time when this country is looking to bring in more migrants it is making substantial cuts to English language programmes that support unemployed people to get the language skills necessary to put them on their journey towards work. In my own case, we already had a waiting list of 700 for those English language programmes, even before we had to stop those ones in the summer.

Q5 Stephen Phillips: Why did you make the cuts there? Was there nowhere else where you could cut a programme? I think you meant fewer migrants. The Government are trying to encourage fewer migrants—you said more—but why the cut there? Why not somewhere else?

Ian Ashman: In that particular case, the money was earmarked for those particular programmes. My point was that we still have a substantial number of migrants in areas like Hackney—people who are in settled communities—but there was also mention of us taking some of the refugees coming into Europe, and those people will need English language programmes. In that particular case, it was a specific funding stream for those people that was closed to us, so we did not have a choice there. What we have done is ensured a disproportionate impact, so you cut those courses less than the amount of the budget, because it is our biggest unmet need—as I say, there are 700 on the waiting list wanting English language programmes.

Q6 Chair: Perhaps one of the others will come in on this. It is worth knowing exactly which courses you no longer provide and how you reached those decisions. What was the impact on the cohorts of students?

Sarah Wright: We too have had to reduce significantly our English language provision for speakers who require that. Part of the Government agenda is about making sure that people for whom English is not their first language are appropriately skilled in order to take up proper positions in the workforce. We have had to reduce that. The way that we have reshaped the college is largely based on demand and our local enterprise partnership priorities—our key priorities. We have greatly reduced hair and beauty provision, for example.

A key driver for us is the viability and sustainability of class sizes. We cannot operate where we have lower numbers in class sizes. For example, we took a decision this year to remove MFL—modern foreign languages—from our curriculum offer completely, based solely on the fact that we were going to have small class sizes. We knew that we could not afford to run those classes.

Our *raison d'être*, as well as providing a quality experience for our 16 to 18-year-olds, is to make sure that we hit that apprenticeship agenda. We have, against the regional trend, increased numbers of apprentices, both 16 to 18 and 19-plus, and I think that is a real driver for colleges. Also, achieving financial sustainability is a key driver, and it just is not possible then to subsidise smaller classes.

Q7 Chair: If you are a student at Central Sussex College who wanted to study modern foreign languages—is it 16 to 18s only, or is it all ages?

Sarah Wright: 16 to 18s.

Chair: So where do you go instead to do that?

Sarah Wright: They would have to go to another college that has a greater percentage of sixth-form provision.

Q8 Chair: To be clear, if a student was midway through a course, would they lose it midway through?

Sarah Wright: No, we wouldn't do that, but we would not recruit to it. We have all ages at the college—

Q9 Chair: So people weren't having to move college mid-course, but they would no longer have the option of coming to you.

Sarah Wright: Yes, that's right. We no longer offer it as an A-level, for example.

Stuart Laverick: One of the key restructuring issues is that I have come out of the A-level market. When doing the analysis and talking to the Local Enterprise Partnership (LEP) and other stakeholders in Worcestershire, it was clear that there was a strong sixth-form college that was starting to have some financial pressures, and some schools. Therefore I looked at that, specialising in technical and vocational—we came out of that market. One of the things I found very frustrating when doing this is that, although it was the right thing to do, the readjustment—clearly, I had to see the final year out—this meant smaller groups, and it took up a lot of resource. I was disappointed because, although the SFA was sympathetic when I said that during the readjustment I would have liked some support while I was moving out of that area and coming into some of the priority areas that Ian and Sarah have touched on, that was not available. I did it anyway, because it was the right thing to do and I was satisfied—and, more importantly, my governors were satisfied—that there was enough provision in the locality. But as we start to specialise and look at how we can stick to our knitting—in my case, I take that to be technical and vocational expertise—it is important that we are supported through that, and the current mechanisms are not particularly sympathetic to this. You may hear people say that academies are coming in and are being given protection as they grow. As colleges are coming out of things, it would be beneficial to do that, because there is real pressure.

Q10 Chair: That leads me on to a couple of other things that you can perhaps touch on. There are a lot of different bodies—an alphabet soup of organisations—that can intervene, support or whatever you call it: BIS, the SFA, the FE Commissioner and so on. Can you tell us what your experience is of them? Sarah Wright, I think you have had direct intervention with the FE Commissioner. Is that right?

Sarah Wright: Yes.

Chair: So that is one thing. The other thing is: although it is early days yet for the area-based reviews, do you have any comments on them? You could see them as a supportive mechanism or a threat, but I would be interested to hear how they are working for you on the ground.

Sarah Wright: The position of Central Sussex College is that the FE Commissioner's intervention was extremely helpful. We have supportive and productive relationships with SFA and EFA colleagues; however—

Chair: Just for the benefit of people watching who aren't au fait with this, could you spell out SFA and EFA? We know, but they might not.

Sarah Wright: Yes, sorry. The Skills Funding Agency and the Education Funding Agency. The advent of a joint chief executive is a very good move, but my feeling is that that needs to be joined up for colleges as much as possible.

Q11 Chair: Can you explain what it is like now?

Sarah Wright: Yes. There have been some occasions over the past couple of years when it has been clear that there has not been as much cohesion between the two sets of thinking and the two bodies as is necessary. We have already started to see a slight improvement there, but there is no doubt that we have a proliferation of monitoring bodies. From our perspective, the FE Commissioner was extremely productive and helpful. I think you need something coming in at the side in extreme cases for colleges.

My college is in the first wave of area reviews, which I see as a positive process. My main concern about the area reviews is that they are only partial reviews, because they do not include school sixth forms. That is a real concern across the sector. I think colleges would feel a lot more reassured if we were looking at school sixth forms and if we could come up with a way to create a moratorium for school sixth forms with fewer than 250 pupils that are not financially sustainable. Nationally, the rate of attrition in school sixth forms is 20%, compared with 9% in general further education colleges. We do it better and cheaper than school sixth forms, yet they are not being looked at as part of the area review process.

Ian Ashman: The area review process is going to be complex in London because of the large volume of colleges—50—and the huge population. Nevertheless, a collaborative approach seems to be being developed between the FE Commissioner, the GLA, the London LEP and colleges. We are having a productive dialogue about that. I share the concern. Obviously, a lot of small sixth forms have grown relatively recently in London, and we too want to see them included within the scope of the area review.

Stuart Laverick: In Worcestershire, as I said earlier, we looked at a merger and we merged a year ago. In terms of the LEP, they have spoken to the SFA, we are likely to be in the last round, because the college sector has largely been reshaped in Worcestershire.

I am, however, also involved in the Greater Birmingham and Solihull LEP, which is the first one, and there are clearly some pressures, given the problems with colleges and a number of colleges in Birmingham. I am not directly involved in that, but because some of the colleges are little more than five miles away from my northern border, there is quite a lot of overspill. That is an important thing to understand in area reviews: it doesn't just fit nicely. Redditch and Bromsgrove in north Worcestershire pull in a lot of people from south Birmingham, I am very active in south Birmingham, and therefore it is not a clear cut

boundary. I am involved, and I think it helps having the member for Bromsgrove involved in Worcestershire, and therefore I am very active.

Q12 Chair: In the past, with capital funding, there was a desire to see colleges grow individually. Did you do informal work in your area—informal area reviews, effectively—in the past when looking at changes to curriculum and demographics?

Stuart Laverick: Yes, certainly, where we talk to one another. There is collaboration. Looking for viability is certainly something that we have talked about in HE and the apprenticeship market, and looking for that specialism. It has been particularly important with the LEPs, where the LEPs are looking to see where we are going to specialise, particularly with investment in capital. Worcestershire has a very large engineering and manufacturing base, so if we are looking for money into that, how best is that located to ensure that we have maximum impact? We have looked into that and we have been proactive with our LEP and other partners in that.

Q13 Chair: I suppose that prompts the question, in what way are the area reviews different from what you did before? Are you getting anything more out of it?

Sarah Wright: That has not happened in all areas. I would say that that is an example of very strong collaboration and decisions taken for proper strategic reasons. That is not the case across the country.

Q14 Mr Bacon: I have one specific question. Mr Ashman, you referred earlier, to having a waiting list of 700 for English language provision. How much does it cost to provide an English language class to one student?

Ian Ashman: It costs about £3,500 a year to provide an adult with a full-time English language programme.

Q15 Mr Bacon: That is full time, but what does full time mean? How many hours a week is that?

Ian Ashman: You are talking about 14 or 15 hours a week of study.

Q16 Mr Bacon: Of class time.

Ian Ashman: Of class time, yes.

Q17 Mr Bacon: Are you allowed to charge?

Ian Ashman: With those particular students, if they are unemployed, which they largely are, they would be entitled to free provision.

Q18 Mr Bacon: My question was not whether they are entitled to something. My question was whether you are allowed to charge.

Ian Ashman: Not for those students. For people who are working, we make charges on fees.

Q19 Mr Bacon: If somebody is working, how much do you charge them?

Ian Ashman: They will meet at least half the cost of the course, with the Government contributing the other half, for those particular courses. There are other things we do which are fully commercial, where we charge commercial rates, and they are fully financed by the students themselves.

Q20 Mr Bacon: When you say “other things”, do you mean other language things?

Ian Ashman: Other courses outside the English—

Q21 Mr Bacon: I am just interested in languages at the moment. So you do not charge any students the full cost of a language course?

Ian Ashman: No.

Q22 Mr Bacon: Are you allowed to do that?

Ian Ashman: We could charge people who were working. We would not be allowed to charge unemployed people, but it would be unrealistic to expect them to pay a fee.

Q23 Mr Bacon: Yes, but I am trying to get to separate things: what you are allowed to do, what you are not allowed to do, and what you do. You are allowed to charge people the full cost of a language course if they are working, but not if they are unemployed.

Ian Ashman: That’s right.

Q24 Mr Bacon: You are actually prohibited from charging them if they are unemployed. Is that correct?

Ian Ashman: Yes.

Q25 Mr Bacon: If they are working, you are allowed to charge them.

Ian Ashman: Yes.

Q26 Mr Bacon: And the fee that you set is for you to determine as an independent college.

Ian Ashman: Yes.

Mr Bacon: Sarah Wright, did you want to add something?

Sarah Wright: No, I just agree with what Ian said. We run some full-cost English language provision, but that is for people who are working and we set the fee ourselves.

Q27 Mr Bacon: And that fee is designed to recover the entire cost of the tuition?

Sarah Wright: Yes, absolutely—

Mr Bacon: How much do you charge?

Sarah Wright: —and provide a small profit.

Q28 Mr Bacon: How much do you charge?

Sarah Wright: £1,500.

Q29 Mr Bacon: Mr Ashman's costs £3,500. Admittedly you are in different parts of the country, but—

Sarah Wright: No, but have to look at how many students you have in that class in order to determine the appropriate fee. It depends on how many you set the class viability at. That might be 10; it might be 15.

Q30 Mr Bacon: For £1,500, how many would you need to make the class viable?

Sarah Wright: We would need 15 students.

Q31 Mr Bacon: Mr Ashman, how many students do you need to make it viable at £3,500?

Ian Ashman: We are working on ratios of about 15 as well, but that is a full-time programme. Probably the full-cost programme will be a smaller number of hours.

Q32 Mr Bacon: How many hours is your programme?

Sarah Wright: It is very much a part-time course. I think it is eight or nine hours.

Q33 Mr Bacon: Eight or nine, as opposed to 15 hours.

Sarah Wright: Which would be full-time.

Q34 Mr Bacon: The reason I ask and why I labour the point is that I have both been a foreign language teacher of English overseas and have studied a foreign language while overseas for which I paid, so I have a particular interest in this. The course was considered to be part time—it was 15 hours, from 5 to 8 every evening, five days a week. Are your courses day courses or evening courses?

Ian Ashman: It is a mix for us. You can study in the day or in the evening.

Sarah Wright: And for us too.

Stuart Laverick: Same for us. One thing we have looked at in terms of making it more affordable is the reality for many of our learners: we have to be flexible because they are often working shifts. Many of them are very proactive in the economy and they make a sacrifice and give a lot of time to their studies. They are often keen on using technology, so if you use technology right, affordability can be more manageable.

Q35 Chair: May I ask one more question before turning to Stephen Phillips? Do the Work programme providers provide you with any DWP funding for people who are in work but with poor English skills who need to learn the English language to improve their working position? I am thinking of a kitchen porter who came to my surgery with poor English. His employer was certainly not going to provide funding, but he was on the minimum wage and would not have been able to afford either of the fees that are being discussed. Sarah Wright, do you get anything from DWP?

Sarah Wright: Not for us.

Chair: Ian Ashman, do you get anything from DWP?

Ian Ashman: No. We would work with them and would use our SFA funding to support their education.

Stuart Laverick: I could potentially use discretion to fund and bend, but I have less discretion as funding has become harder. There may be cases where we still look and try to give some flexibility, but it is getting ever more difficult.

Chair: We have looked quite a lot at the employment support programme and the Work programme, and people get a lot of money from that, which is interesting.

Q36 Stephen Phillips: Very briefly, if you look at the NAO Report, it looks as though another pressure is about to manifest itself on all of you: a sort of demographic ticking time bomb. You will see numbers drop off as a result of a reduction in the number of 16 to 18-year olds over the next few years, but then, hopefully, they will pick up after 2020-21. What are you doing at the moment to plan for that and the fact that there will be inevitable reductions in funding as a result?

Stuart Laverick: Certainly. That was one of the reasons driving the merger in Worcestershire. There were particularly marked demographic reductions in the north of the county, linked to the decline at Longbridge and the car industry. Redditch, as a new town, had a lot of employment so there was a particular demographic aspect at that time. We came together and looked at getting our cost base down, which we have done in terms of average class sizes. We have looked at investing in technology to make sure we can use cost-effective learning approaches. Those are the sorts of thing we are doing. That will bottom out in 2018-19 in the north of Worcestershire. Worcester is already coming. This will be the last year and then the demographic will turn.

Q37 Stephen Phillips: Have you left yourself enough capacity to expand again?

Stuart Laverick: It is an interesting point and a very good question. One of my fears, at a time when it is exciting in terms of looking at process and product innovation, is the reality of the funding and whether we can create enough contribution so that we can move forward. That is the big challenge. I managed to put the best part of £1.5 million this year into improving my facilities, particularly around IT and the ability therefore to use technology, but going forward with continuing funding cuts the pressure on capital will be a real issue.

The capital side of things is important because although we are looking at revenue funding, the ability to maintain an infrastructure, both capital and virtual—more important in many ways is the virtual infrastructure if you are going to reach people and use technology to drive learning—that is something that needs looking at carefully. It is a good question.

Ian Ashman: In east London, we have a rising population—

Chair: We are very young in Hackney—I am not so young, but the rest of Hackney is.

Sarah Wright: For our main campus, which is in Crawley, we have a static demographic. For one of our campuses in Haywards Heath, where we have significant student numbers, there is a slightly declining demographic that will recover in 2018-19. The big thing for us has been making sure that staffing is at an appropriate level of income. Ours is at 60%, which is good. It was quite lean in the sector.

We are also making sure that we are very active in project work and growing our full-cost courses—our professional and technical full-cost delivery—in order to shore ourselves up to mitigate the declining demographic that will affect some of our cohort.

Q38 Karin Smyth: Could you say something about the impact of the financial situation on your recruitment and retention of staff?

Sarah Wright: Absolutely. That is very significant. For a college with a big financial question mark over it, it is extremely difficult to recruit high-level, senior staff. Because of that, in my college I had a vice-principal for quality and standards, which every college has to have, and when that person retired from the college, it was impossible for me to recruit an appropriate person to take on the role, so we used consultancy. I think you'll find that for most colleges the use of consultancy is short term, to bridge a gap, or, in the case of my college, with a massive financial difficulty that is well reported, it is because you just cannot recruit the kind of person you know you need to help move the college forward.

Q39 Chair: May I ask finally about capital budget? There have been a couple of different funding regimes—Building Colleges for the Future and then a more recent regime. On paper, they look quite similar, but I wonder what experience you have had of securing funding and what challenges that provides, given that you are independent bodies and there is not, ostensibly or in theory, a way of being bailed out, although that does often happen.

Sarah Wright: In the case of the college I am now principal of, there was a new build that was agreed. The funding for phase 3 of that fell through, but the college went ahead and continued to rebuild the new campus. That has left a legacy of long-term debt that has not helped the college one little bit, so I think what happened with the money running out in terms of Building Colleges for the Future was very unhelpful for some colleges.

It has also led to a system where you have absolutely fantastic campus facilities and very poor campus facilities. For our main campus, it is very difficult for us even to meet routine maintenance costs, let alone innovate and move into the kind of accommodation that our students deserve and should be taught in. On the other hand, I have an absolutely fabulous campus that is state of the art and wonderful, but it goes from the sublime to the ridiculous. That almost illustrates what has happened in the sector. You have world-class facilities and very poor facilities, and colleges that are struggling to perform even routine maintenance because they are having to use any capital moneys they would have used previously out of their own budget simply to survive.

Ian Ashman: We have not been reliant on a big capital programme. We had a big investment in the 1990s, fortunately, so we are not laden with debt and I am grateful for that. We maintain the investment, as Stuart said, in keeping the campus spick and span, and investing in technology. At the moment, I am waiting on a decision from the LEP that will determine whether we can create a new apprenticeship training centre in what was the broadcast centre in the Olympic park. That is something we very much want to do, but uncertainty over the future of public funding for that is holding us up at the moment, which will delay us in moving forward with the apprenticeship expansion.

Q40 Chair: That is a slightly different point to the main capital funding budget.

Ian Ashman: It is, but it is capital delaying us there.

Stuart Laverick: In terms of capital, we were supported by the Skills Funding Agency to the tune of about £1.5 million. We managed to sell a building that was not very cost-effective, and we now have a new building in the centre of Worcester that is performing brilliantly well and is contributing to the city council's agenda, as well as our own. It is very cheap to run and very good on technology, because it was a new build. I am in the fortunate position that I have relatively little debt in terms of how we have managed that, and therefore I am not exposed to that.

One area that concerns me in terms of access to capital—I was particularly interested in the special educational needs budget, and I know Parliament has looked strongly at supporting the most needy in our society. It is disappointing that there was previously something called the demographic growth fund, an EFA capital fund that was particularly aimed at colleges—mine is one of the biggest providers—for students with special educational needs. That capital pot has not re-emerged since the election, and that is important, because, again, there is much need in the county. For example, local authorities who are having to look at their budgets are spending a lot on sending students with special educational needs out of area, which is not good for them, because it detaches them from their communities. It would be sensible if we could look at that capital spend. I know that is not just an issue in Worcestershire, and it would be worth talking about it with the next panel.

Chair: Thanks for flagging that up with us, but it is not something we touch on particularly. Stewart Jackson and Deidre Brock want to come in.

Q41 Mr Jackson: You mentioned the LEPs earlier, Mr Ashman. I do not want to get too fixated on London, because there is a world outside the M25—a big world—

Chair: With Peterborough at the epicentre.

Karin Smyth: A better world.

Mr Jackson: Well said. So we must not be too London-centric. You have an important, central role to play, in your sector, in improving skills. What relationship do you have with the local enterprise partnerships in terms of bidding for growth moneys or moneys from different Departments? How closely involved are you in that? Obviously, if you can access money as the principal spender, that is good for you and good for the community. What is your experience of that?

Sarah Wright: Me?

Mr Jackson: All three of you, but perhaps we can take our non-London people first.

Sarah Wright: We do work very closely with our LEP. We have been able to bid for pots of money, which they have supported. The LEPs are possibly quite cautious about pots of money going to further education colleges—that would be my understanding of it—and perhaps a little less cautious about pots of money going to universities. But we have had support from our LEP, and we work closely with them—we share a board member, for

example. We are always very keen to talk to the LEP. We also carefully look at LEP priorities and then translate them from sectors into actual jobs, thinking, “These are the sectors that the LEP has highlighted. What do the jobs actually look like?” That is what our business is: it is about providing people to go into those jobs in the local area.

Q42 Mr Jackson: To all intents and purposes, you have zero unemployment in your area, haven’t you?

Sarah Wright: Yes. It is very low. What we do have, however, are quite a lot of people in low-skilled jobs. With Gatwick airport, for example, nobody really needs not to have a job. We have very few who are NEET—not in education—and we have very low levels of unemployed. There are some unemployed people, and we have used a lot of European social fund expenditure in delivering for those people. But the key for us is getting those people out of low-paid, untrained jobs that are not going anywhere and upskilling them. Sometimes there is a real emphasis on higher skills, without, perhaps, sufficient emphasis on the fact that people have to get the lower skills first in order to incrementally move up the ladder.

Stuart Laverick: I sit on the Worcestershire LEP board. The Worcestershire LEP has been very supportive. Going back to the merger, one of the reasons we merged was that the business community in particular wanted a more simplified employment and skills landscape, so we worked on that, and that drove the merger. Since then, the LEP have been true to their word and have been supportive in terms of capital ambitions. At the moment, we are working with the chamber of commerce, the IOD and the LEP on what the engineering investment is going to be. The LEP will look, probably, at 50/50 match funding from the LEP and the college to invest in that—that is what we are looking at.

When I talk to businesses, I am asking them what I need to be investing for the next 10 years. Sometimes it is about getting a commitment to make sure I get the right things. But that is working very well; the LEP are very supportive of the sector and see it as crucial for the Worcestershire economy. I have to say that that is also because, as well as the college, we are a responsible for a consortium of 35 other private providers in Worcestershire and the West Midlands. Again, our access to resources also provides capacity for that wider delivery.

Chair: I was going to say we will have a final word from Deidre Brock, but John Pugh wants to come in too.

Q43 John Pugh: Do I take it, though, that there is no formal relationship between LEPs and FE and that it varies from place to place? Certainly in the LEP in my area, FE is unrepresented on the skills committee, which is bizarre. You seem to have a very close connection.

Stuart Laverick: Absolutely. I sit on the main board—the employment and skills board. The principal of Kidderminster College represents the FE sector, and the other providers—

Q44 John Pugh: It varies by area.

Stuart Laverick: It does, very much so.

Q45 Deidre Brock: We have covered a lot of ground, and thank you for some very interesting responses. At the centre of everything you do is making sure you have the best possible education on offer for your students. Can you tell us a little about the overall problems you are facing as a result of the different commercial and financial challenges, and what effect that has on your students?

Sarah Wright: The biggest thing for us is the inability to invest in our estate, unless we are lucky enough to bid for a pot of money that is for a specific purpose. It is also the inability to invest in things like online learning, which would be very helpful for our students but requires some up-front cash. There are other resources we have found it very difficult to invest in, so we are not able to supply to our students the vision for excellent education in the way we would like to, because we know our funding can change at the drop of a hat. There is no stability. There is no three-year funding envelope, for example, which would enable us to invest and to make commitments because we could see what funding we had from one year to the next.

Ian Ashman: The loss of courses in things like English language has hit particular groups of students very hard, and that is the most fundamental thing for me. The capital point is also important, particularly as we are trying to get more people into higher-level skilled employment. We need to invest in technology and facilities that are state of the art and at an industry level, and that is where I worry colleges could be going backwards.

Stuart Laverick: The challenge that I have found most difficult is that we work really hard on information, advice and guidance to get students on the right course and to make sure it is lined up. I have found it very frustrating with some of the micromanagement around what maths and English is best for students, which is not always driven by educational reasons, but is rather crude—if they have a certain grade in a GCSE, they will do a certain maths and English. That is damaging students who often come in lacking confidence, having sometimes had poor experiences in schools. We therefore we need to build their confidence up and move them on. That is why we are very successful in FE and why we progress people through—often to our detriment, in the sense that they become older than 18 and are still on full-time courses. That is the bit I have found most difficult. It certainly has caused and is causing distress to some of my students, which is a worry.

Chair: Thank you very much indeed for coming and giving your time today. It has been very helpful to hear from those of you on the frontline about how things are going. There are a number of points we can now raise with the relevant permanent secretaries.

Examination of Witnesses

Witnesses: **Martin Donnelly**, Permanent Secretary, Department for Business, Innovation and Skills, **Peter Lauener**, Chief Executive, Skills Funding Agency/Education Funding Agency, and **Chris Wormald**, Permanent Secretary, Department for Education, gave evidence.

Q46 Chair: We will move on to the second part of our hearing. We have as our witnesses the permanent secretary at the Department for Education, Chris Wormald, the permanent secretary at the Department for Business, Innovation and Skills, Martin Donnelly, and Peter Lauener, who is now the chief executive of the Skills Funding Agency and the Education Funding Agency—you might want to briefly explain that at the beginning.

Reading the NAO Report, as I said at the beginning, there are a lot of serious issues here, but I certainly got the impression that Departments have been a bit too content to sit back and take a reactive role as problems arise, and we want to probe a bit on that. However, I want to touch on the point that I raised at the beginning about whether you are being fair to colleges and students vis-à-vis universities, which is probably something for Martin Donnelly to pick up. Do you think you are getting involved as you should? Is enough being done to support the sector to develop the skills to tackle the challenges that it is facing, and is it on its way to a sustainable solution? In the end, your Department is responsible for spending quite a lot of taxpayers' money, and we are hearing of very big challenges in the sector. Perhaps it would be helpful for us all if you could, first, outline your precise responsibilities in relation to the sector, starting with Martin Donnelly.

Martin Donnelly: Thank you, Chair. We have an overview of the further education sector. We have to ensure that we are protecting learners and making provision for learners, and that taxpayers' money is being used effectively in this area. As the Department for growth, we also have a strong concern to ensure that the education and skills needed by local areas are being provided, including, of course, through the FE college sector.

Peter Lauener: My job, with two hats on, is to be responsible to Martin for the £3.9 billion that BIS spends through the whole of the further education sector—not just colleges—and to be responsible to Chris for the £54 billion that is spent on the school education system, whether that is for academies, colleges for 16 to 19, private providers for 16 to 19, or maintained schools through local authorities, and for a big slug of capital funding there as well.

Chris Wormald: We are responsible for education up to the age of 18, so, for the purposes of this hearing, that is the whole of 16-to-18 education, whether it takes place in further education, school sixth forms or in sixth-form colleges. We are the lead Department for the institutional management of sixth-form colleges and school sixth forms. Martin's Department has lead responsibility for further education.

Q47 Chair: Just to be clear, when the buck stops finally for the future of the FE sector, that would really be with you, Martin Donnelly, as permanent secretary of the Department for Business, Innovation and Skills?

Martin Donnelly: For the provision of learning in the FE sector, yes.

Q48 Chair: Perhaps you could outline for us your vision for the future shape of FE. We are seeing a lot of changes coming through, both in capital revenue funding, with different pots of money, and an alphabet soup of regulators. Where do you see FE in future, because that will give a bit of a shape to how we see the money being spent?

Martin Donnelly: Since 2010, the Government's policy has been clear: to maximise the amount of choice for learners and to provide funds to learners and employers, with an increasing focus on apprenticeships, which you might want to come back to. Within that—the Report is very helpful, if I may say so—it is clear that there is a lot of pressure on the further education college sector to adjust to changes in funding and in local need, and it is very important that we support them to do that while recognising that they are independent statutory corporations that we do not and should not control. We have spent a lot of time with Chris and, particularly, with the SFA working out systems where we can support colleges to go through that process of transition. The most important of those are the area-based reviews, which you might also want to discuss.

Q49 Chair: Certainly. Ultimately, we have heard about one college, from our witness panel earlier, that has merged and there are others—I think about 16 have merged so far. Do you care if colleges close or merge? Do you have a vision about that?

Martin Donnelly: We care very much that local provision is effective, flexible and provides a very high quality and choice to learners. Within that, it is pretty clear that the number of colleges, which has fallen from, I believe, over 400 20-odd years ago to 241 now, is likely to continue to decrease. We do not have a target. Our concern is that we end up with resilient colleges able to provide a very high-quality service. It is likely—this is my personal view—that there will be significantly fewer of them, but that is something to be teased out, particularly through the area reviews.

Q50 Chair: It sounds like it could be a bit haphazard. In terms of the future shape of the sector, FE colleges particularly have a capital asset and a physical presence, which constrains who they deliver to, to a degree, but also is an important local provision for people who may not be able to travel in the same way that people might do to university. Does the Department have no strategic oversight of what the general geographical spread should be of these institutions, and do you not have any alarms or worries about how area-based reviews may work or throw up mergers that might not deliver for all residents in a particular area?

Martin Donnelly: We are very concerned to ensure that there are available learning opportunities for people throughout England—in this case. Perhaps I could ask Peter to comment in a bit more detail about how we take that into account as we go through the process of supporting colleges and the area review.

Peter Lauener: First of all, a bit of context. As Martin said, there has been a long-term process of rationalisation and merger in the further education sector since incorporation in 1993. When a merger happens it does not mean that buildings are necessarily closed, although there is sometimes a separate process of reducing the number of buildings in a

particular area, if there are too many; but very often you get distributed leadership and management over a wider area, which produces savings and efficiency, and improvements in effectiveness.

As we go to the area reviews, the big challenge with those is precisely, I think, what you said—to start with what is needed for learners, for communities, for business, and then work back from that to structure. So it is not a sort of “move the deckchairs around”. It is what is needed in this area to provide the best possible service to the three groups—learners, the community and employers—and improve progression through to higher skill levels. It is quite a challenging agenda.

Q51 Chair: Certainly we would recognise that, and that there are some benefits to looking at the needs and skills of an area, and that that should be something, I guess, that every provider should be thinking about as well; but there are examples of colleges which received large chunks of capital funding—taxpayer money—to improve their premises and then found that they were not actually meeting the needs locally, because demographics had changed; but of course being independent institutions they cannot be just taken over by anybody, and some of the sites are restricted in what they can be used for. Does it matter to you, Peter Lauener, if a college physically closes? Is that something you worry about at the Skills Funding Agency?

Peter Lauener: Again, there have been very few cases of actual college closure through this process of mergers and rationalisation.

Q52 Chair: But don't you think there is a prospect? There are 70 more colleges projected to be in financial deficit at the end of the next academic year. Surely there is a risk that colleges will be forced to close, because they are independent bodies; there is not an easy, obvious bail-out system for them.

Peter Lauener: There is certainly a risk, and the Government published recently a set of principles that will guide the decisions to be taken through area reviews, and decisions on financial support that the Government will take. Those principles make it clear that the Government does not feel obliged automatically to bail out a college, but might choose to do so to safeguard provision or for other public value-for-money reasons; but it is quite important to establish that principle that there is no sacrosanct pattern of provision. It has got to be determined by what makes sense locally; and that does change over time.

Let me give you one example of the way that changes, which is the growth in apprenticeships we are looking to see happen as we expect the levy to come on board. Apprenticeships need a different delivery model, much more on employers' premises—maybe provision on factory parks close to employers, rather than full-time provision in a college; so colleges will need to adjust to that.

Chris Wormald: You were trying to get at a slightly different point, I think, Chair, weren't you: there is whether we have an interest in institutions and there is whether we have an interest in publicly funded assets and what happens to them. We undoubtedly have an

interest in publicly funded assets and what happens to them, almost regardless of what happens to the institution. I think that is the position.

Q53 Chair: That really highlights one of the challenges—that when a number of institutions had loans they could not pay back, those loans were turned into grants. So that was taxpayers’ money going into institutions; but it is not clear what the pattern is, about when that will happen and when not. It seems to me that on one hand Departments are sitting back saying, as Mr Donnelly said, “Well, we don’t interfere with individual institutions; they are all independent,” and on the other sometimes money goes in, but it is a rather haphazard approach. Is that fair to say, Peter Lauener?

Peter Lauener: Can I give you an example of where we have taken the route of making sure the asset is safeguarded, but not taken the route of preserving a college? It is actually a sixth-form college. It is a small sixth-form college called Totton down near Southampton. There were financial problems and quality problems. The corporation looked at the opportunities, and whether there was scope for merging with other local colleges. The decision of all local partners was that there was no need for the A-level provision that Totton college had been offering, because there were plenty of other schools or colleges making a very good offer. The corporation decided to close the A-level provision from September just passed, and move the students into other colleges, even if they were going into the second year of their A-level course.

I thought that that was the right decision. Our job there is to support the college and the corporation, and ensure that the students are placed. There was a gap however around vocational provision. We have worked to find another provider, who is coming in and will use the buildings to provide vocational training for young people in the area, but of course we will ensure that there is a safeguard on the assets, because those are publicly funded assets.

Amyas Morse: I was listening to your very interesting answer and going through what we heard from the earlier witnesses. Now let’s imagine that you’ve got a further education college with a sixth form, and you look around and see who else is a credible provider. You’ve got schools in the area that have small, not very efficient sixth forms. Does that mean that you might be moving people from the college into those schools, even though they might be less efficient providers? You heard the concern; it would be quite good for you to answer it fairly directly.

Peter Lauener: We are not prejudging the outcome of area reviews. On the steering group of the area reviews, there are local partners, chairs of colleges, the FE Commissioner, the Sixth-form College Commissioner—

Amyas Morse: But not schools. Schools aren’t taking part.

Peter Lauener: And the Regional Schools Commissioner. You’re correct that not all schools are by definition involved in the area reviews, but the Regional Schools Commissioner is there to bring the perspective of any gaps or problems in the schools sector. It does not quite go by default.

Amyas Morse: Is that the same?

Chris Wormald: As this came up earlier, would it be helpful if I explained the position on schools in area reviews? The fundamental of 16 to 18 funding is of course that funding follows the learner, and we allow further education colleges to expand and we allow sixth forms to expand. To some extent, they succeed or not in the market. We have equalised the funding between the two, so it is a much fairer competition, but if people choose to go to sixth forms, we allow them to do so. If people choose to go to further education, we allow them to do so. There are no plans to change that.

In terms of the area reviews, we include schools in the analysis that goes into the area reviews, so they are looked at, but the recommendations of the area reviews are focused on the further education provision. That is for two reasons, and it has been much debated, as you heard: first, because further education is the area where we have the biggest challenges, so that is the area where we are looking to restructure; and, secondly, there is a lesson from history. In 2005, the Learning and Skills Council attempted strategic reviews that included sixth forms and further education, and it just proved to be far too complicated to do. Area reviews are already very complicated. We debated it quite a lot, but we have attempted to learn from past experience and keep the reviews focused on the area of greatest need, which is further education.

Amyas Morse: Just to make sure that I've understood you properly, Chris, so we are now in an area review, and you have a school sixth form that is relatively small. Are you saying that it is possible, as a result of an area review and because of the participation of the schools commissioner, that you might decide to discontinue activity in a sixth form and redirect it into a further education college? Is that a possible outcome?

Chris Wormald: Not as a direct result of the area review. If a school wishes to provide a sixth form, and it can get learners and can fund itself with the funding following the learner, it can continue to do so. The occasions where we intervene on sixth forms are on standards grounds. There are some very, very successful small sixth forms, so I don't think having cut-off points at particular numbers is the way forward. The question is: is that sixth form, whatever its size, providing successful education? In terms of our value-for-money test, well, as I say, the input is fixed. It is basically £4,000 plus deprivation plus area, so the input is fixed. If it is providing a quality outcome as measured by Ofsted and results, we would see that as value for money regardless of its size.

Q54 John Pugh: Can we make sure we absolutely understand you on this? It is an absolutely pivotal point. Are you suggesting that in the case of an area-based review, if the area-based review establishes that it would be more efficient, good for the community and good for the learner, as was suggested earlier, if the sixth form was reduced in size or maybe merged with an FE college or altered in some way, you have, in the terms of the framework of this area-based review, any capacity whatsoever to make that happen?

Chris Wormald: No, we don't constrain student choice.

Q55 John Pugh: No capacity to make it happen.

Chris Wormald: If a school saw that as being the right idea, assuming we are talking about a sixth form that is meeting standards, so it is one, obviously, that Ofsted judges, there is—

Q56 John Pugh: But it is not an efficient way of providing education in that area.

Chris Wormald: Sorry, I will dispute that point. If it is getting a good or outstanding rating, then given that it is getting the same amount per learner as everybody else, it is providing efficiency and value for money.

Q57 John Pugh: But even if it is not, you have no capacity within the area-based review to do anything about it.

Chris Wormald: Not as part of the area-based review. If it was providing inadequate education, we would intervene on standards grounds, but not as part of the area review. I am trying to be very, very clear. There is nothing in the area-review process that would cause us to close sixth forms or constrain student choice.

Q58 John Pugh: Right. I just want to follow through something you said earlier. There has been an expansion in sixth forms. Surely there have been some new sixth forms created, as well as expansion in existing sixth forms.

Chris Wormald: Yes.

Q59 John Pugh: These decisions were made independently of any area-based review of what might be the most efficient provision.

Chris Wormald: Yes. As I say, we take decisions mainly driven by learner choice—

Q60 John Pugh: I am talking about a school that may decide to have a sixth form. Let's say that a lot of people are electing to go there and you are providing extra places, as with this grammar school story we have on the monitor at the moment. You are saying that if a school decides to have a sixth form, that decision, when it is made, is based independently of any—

Chris Wormald: Not quite. It is slightly different for academies and maintained schools, so I will take an academy. If it is an academy, it has to put a business case to the EFA for its change of age range, which has to involve local consultation; and you are only allowed to do that if you are a good or outstanding school, so you have to—

Q61 John Pugh: If that is done in the future, it presumably will be done in the context of any area-based review, will it?

Chris Wormald: As I say, we do not constrain student choice; and the area-based reviews—*[Interruption.]* Sorry, I am trying to be very clear. The area-based reviews are not—

Q62 John Pugh: I am not trying to harass you, Mr Wormald; I am just trying to get it precise. Let's say, for example, that a business case is put by an academy for an additional sixth form and, simultaneous with that, an area-based review is going on that clearly indicates an over-provision in 16-to-18 provision and the 16-to-18 provision is judged to be adequate or good in that particular area. What I want to find out is whether the decision to answer that business case, to respond to that business case as put by the academy, will in any way whatsoever be influenced by an area-based review.

Chris Wormald: Not at this moment, no. The Government does keep these criteria under review. There is one thing, however.

Chair: Very briefly. We are going down the sixth-form route.

Chris Wormald: There is one thing I want to say about the sixth form and FE position, as it has come up; I thought some numbers might be helpful. Further education remains the biggest supplier of 16-to-18 education. About 45% of all 16 to 18-year-olds go to further education colleges, about 36% to school sixth forms, 13% to sixth-form colleges and 4% other. When we look back at 2010, the proportions were 50% into general FE, 33% into sixth form and, again, 13% into sixth-form colleges, so while there has been a shift over five years towards sixth forms and slightly away from general FE, it is not actually that big. In individual local areas, it can of course be much bigger than that, but when we look nationally, there has not been a big move from further education into sixth forms.

Q63 Chair: What we have heard from you, Chris Wormald, on that issue is an example of the Department sitting back and leaving colleges to be independent. But, between the two Departments, you fund them. These are your funding decisions. We heard, very graphically, about the unpredictability of funding from the principals in our first hearing and a lot of colleagues from across the House have raised concerns with me about this. By acting in this way—without seemingly joining up your funding—you are causing some of the distress and challenges that may be forcing merger or closure, and are certainly forcing financial deficit. Do you take some responsibility for that? Does that make them not as independent as you keep saying?

Chris Wormald: In the case of 16-to-18—very independent. There is no point when we decide, "This is the amount of money that we will give to further education to do 16-to-18." The figures for what is spent on 16-to-18 is the number of pupils they manage to recruit multiplied by a funding formula. It goes up and down depending on further education's success or otherwise in recruiting pupils. We do not sit down one day and decide that it will be £2.8 billion. That is the result of individual recruitment. Likewise, we do not decide how much we will fund sixth forms. That is the result of the formula playing out, so it is a market.

Q64 Chair: Like many of these markets in Government, it is quite rigged because there are bits of money coming from one Department, bits from another and capital funding.

Chris Wormald: I think the changes that we have made to 16-to-18 funding to equalise it, which were widely welcomed in the further education sector—so, a learner is worth a learner regardless of sector now—

Q65 Chair: Not in the sixth form where there is still the VAT issue still, and sixth-form colleges.

Chris Wormald: Yes, they still pay VAT.

Q66 Chair: An average sixth-form college is losing something like £318,000 a year because of the VAT issue. Is that right?

Peter Lauener: That is about right, yes.

Q67 Chair: Is that being actively looked at, or whatever the jargon is in Government? Are you going to sort it out?

Peter Lauener: It is something that Ministers have looked at from time to time. It is always a difficult thing to address when budgets are very tight.

Q68 Chair: Is it something that your Department is considering putting in for in the spending review, Mr Wormald?

Chris Wormald: We look at the overall levels of funding for 16 to 18. It is obviously for the Chancellor to decide on tax matters.

Q69 Chair: So the answer is no.

Chris Wormald: Tax decisions are taken by the Treasury, not by Departments.

Q70 Chair: Happily for you perhaps, in this hearing. This issue is exercising a lot of my colleagues around the House from throughout the country.

Chris Wormald: I know, but I should say that colleges get an advantage from their independent status—in particular, the ability to borrow commercially—which schools do not have. There are swings and roundabouts.

Q71 Chair: It is not a level playing field. With sixth forms in schools, sixth-form colleges and FE, there are different funding regimes. There is the VAT issue as well. Martin

Donnelly, on the point I raised about the joining-up of your decisions and the impact on the institutions—

Chris Wormald: Sorry, Chair, there are not different funding regimes between sixth forms, sixth-form colleges and FE. It is all done on the same formula. There is a different cost base for the reasons that you say, but the funding formula is identical.

Q72 Chair: Forgive me for my loose tongue. But there is a difference with the VAT still.

Martin Donnelly: It is a fair challenge and one that we take very seriously, not least because we know that the people who run FE colleges have a very challenging job. We do not want to make their lives any more difficult so, over the past few years, we have pulled together. Now, under Peter, regarding how the SFA and the EFA work—we will look actively at what more we can do to make that happen. I think we already have a joint HR function.

It is very important that, from outside, Government looks to be and, indeed, is joined-up. That said, there are genuinely different funding streams where we are funding different things, from apprenticeships through to adult learning and so on. Naturally, those are slightly different streams because we are purchasing a different product. I believe that we have produced a much more unified system and we will go on listening carefully to what college principals are telling us. What comes out to us in this whole process is that the quality of leadership of FE colleges in responding to the market is the critical factor in success. We need to support that and that is what we try to do through the SFA—

Q73 Chair: Although I take your point, having heard from our witnesses and from other evidence that we have received, I think that if you are receiving one amount of funding before you go on summer holidays and—as Ian Ashman rather graphically explained—you come back from your short summer break to find out that you have lost another £600,000, however brilliant a leader of an FE college is, that is pretty difficult to deal with. Can you explain why, so often, those decisions seem to be so late? Do you routinely assess the potential impact on colleges and other providers when taking decisions like that about funding and on policy terms, because that does affect the funding. Perhaps, Mr Donnelly, you could answer that first.

Martin Donnelly: If I could kick off on policy and then pass over to Peter on the mechanics of funding, we try to stay in very close touch with colleges on the forecasts they are producing and on what is actually happening. In terms of funding decisions for policy, these, as we know are taken by Ministers, but we do highlight very clearly—

Q74 Chair: But it is your job to advise Ministers about the impact of that policy and the sustainability of the sector.

Martin Donnelly: Yes, and I was about to say that we highlight very clearly precisely those points, because we are aware that at the end of this process, something has to be

delivered to learners and you cannot separate the policy decision from what is going to happen on the ground some months later.

Peter Lauener: On the mechanics of this, and I quite understand the concerns of colleagues from colleges, this was part of the Government's cuts when they were re-elected in May. It was part of the Chancellor's challenge to his Cabinet colleagues. It did mean cuts in the 15-to-16 budget, and there were cuts across government in different budgets. The skills share of the BIS budget cuts was £60 million out of £450 million, and we did indeed work with policy colleagues to assess: "In the situation of having to make these late cuts, where is the best place to make them?" and those were the judgments that we reached.

We looked in particular at the budget for what is called ESOL-mandated learning—education as a second language for unemployed people who will face benefit sanction if they do not go on the course—and we thought that that was going to under-deliver against the allocations, so we thought that that was a sensible place to make the allocation. You can make those decisions nationally, but it comes down to difficult decisions at college level where plans need to be hastily remade. I should emphasise that that was a start-of-Parliament, unusual situation. There was a comparable situation in 2010, of course, when austerity cuts had to be made in short order. We are now into the spending review that will set budgets for the next few years, so this was an exceptional situation.

Chair: Are you saying that it will not happen again?

Q75 Mr Bacon: You should have had more warning this time. You as Departments should have known ahead of time that something was likely to happen. I fully understand that there were going to be cuts, but what I cannot understand is this. The election took place on 7 May, and that leaves the rest of May, which was 24 days; the whole of June, which was 30 days; and the whole of July, which was 31 days. These institutions find out 10 days before the start of term in September. That was the burden of the complaint—not necessarily that there might be cuts in a rather difficult environment, which we knew was going to continue being difficult, but that the decision and the information to the institutions came so extraordinarily late.

Peter Lauener: It was late, but it was not as late as that. The revised letters went out towards the end of July.

Q76 Mr Bacon: In the evidence we heard, it was 10 days before the start of term. It was so late that it was not practical to give redundancy, and they had to pay in lieu of notice.

Peter Lauener: And when a college gets such a letter, they have to work out how to respond and what to do. I can quite understand.

Q77 Mr Bacon: It was late July, was it?

Peter Lauener: It was late July.

Mr Bacon: It was still nearly three months after the general election.

Peter Lauener: There was a proper decision-making process—

Mr Bacon: A quarter of a year, Mr Lauener. The whole of May, apart from seven days, the whole of June, and the whole of July. That is three whole months.

Peter Lauener: I am sure that Members will recall the process with the discussions across ministerial teams about where cuts should be, and then there had to be a proper calibration of the best place to make these cuts, which was not just about within the skills area but, in the context of BIS, it was about the whole of this very wide policy area.

Q78 Chair: You said that this was a precedent from the previous Parliament that politicians get in the way and make these decisions, but are you making a commitment that it will not be quite such short notice in future?

Peter Lauener: I would have thought that it is not something I would expect to happen every year, by the very nature of it.

Q79 Chair: So when do you think would be a good time to let colleges know what their budgets are? Are you looking at multi-year budgets under the spending review, which is obviously a multi-year review?

Peter Lauener: We always try to let colleges have the allocations for the subsequent academic year by the end of March, so by the end of March 2016, I would expect to let colleges know their budgets for the August 2016 to July 2017 operational year. That is quite a few months to plan and implement any staffing changes or curriculum changes that need to be made.

Q80 Chair: But you are doing this annually, and you are consistently driving this rationalisation of courses and, to a degree, of colleges, possibly through mergers. We have heard quite a lot from the witnesses about the transitional costs of redundancy and generally adjusting their courses. Every year, they are making cuts. There is a huge challenge for them with those transitional costs. It seems to me that the Department and the SFA do not take proper account of that.

Peter Lauener: There is a lot of information about the budgets that colleges can expect to be allocated. Taking the 16-to-19 budget, once a college gets to September or October and it has its intake for that academic year, it should have a pretty good idea of what its budget will be for the following year, because it is a rules-based funding system. The number of learners recruited in one year determines the budget for the following year. There is always a bit of uncertainty about the precise funding level, and so on, but the biggest issue is the number of learners. Every year when I look at the allocations for 16-to-19, it can go from -40 to +40 because of the variation in the number of learners¹. Colleges have plenty of

¹ Clarification from witness: The change in funding for 16 to 19 year olds between the 2015-16 operational year

time to adjust to that. They know right away whether they are going to have to make big adjustments in the academic year that has started because they have not recruited up to target. There are all kinds of things that affect that, including local demography.

The adult skills budget is a little less certain, but we try to make sure that the budget is allocated to where it is being used best. We have taken account of the performance of colleges and other providers in making the subsequent allocations. I am looking very hard at whether we can simplify the allocation of the adult skills budget for 2016-17 and 2017-18. Someone mentioned the issues of looking across two funding agencies, and I think some of the adult skills budgets have been too complicated. I have talked to Nick Boles, who is of course a Minister in both Departments covering this territory, about the need to simplify the budgets. He is very sympathetic and has encouraged me to develop plans for simplifying the budgets for 2016-17 and 2017-18.

Q81 Chair: What is the timescale for that? If it is for 2016-17, when would you have discussed it with providers?

Peter Lauener: We have already had some discussions with providers. Over the last year we have made some simplifications for 2015-16, and I hope we can go further for 2016-17. Clearly, we need to discuss that and agree it all in light of the spending review and in time to issue the budget allocations in March 2016.

Q82 John Pugh: Previously, I had an opportunity to talk to all the principals of further education colleges across Merseyside, who had a number of things to say. We have touched on this area with you before, Mr Lauener, and I think you said that it is about getting the right outcome for communities, learners, employers and business. Those principals said that it is all about culling colleges and cutting budgets. I am afraid that you haven't persuaded me that they are wide of the mark, simply because so far we have decided that other areas of the sector that are not FE do not need to opt-in and that, as Mr Wormald has confirmed, any decision about their future and destiny is made independently of the area-based review. I will not dwell on that any further.

I draw to your attention the extra burdens under which some of the colleges in Merseyside are suffering. A large number of pupils from the school sector, from Mr Wormald's sector, have to attend a college in order to do GCSE maths and English again. That is an objective the colleges support, but does Mr Donnelly think that the funding for doing that is sufficient, particularly in those areas, such as Merseyside, where there are fairly large cohorts of people who do not get English and maths?

Martin Donnelly: If I may, I will ask Peter to talk about the detail of how we provide that funding. I echo the point made earlier that getting English and maths right is fundamental to helping move people, particularly youngsters, up the skills ladder. We cannot do the rest of it if we do not get that right, so it is very important.

and 2014-15 varied from -38% to +23%, reflecting year on year change in the number of learners.

Q83 John Pugh: What they are saying, just to help you answer, is that, essentially, they have a sudden influx of people and that they need to find additional staff—the appropriate staff who can deal with people who, so far, have not been successfully educated in English and maths are at a premium. That is an appreciable burden that is potentially underfunded. Does Mr Lauener think that it is not?

Peter Lauener: I think the issue you are referring to is the changes to 16 to 19 education which followed the Alison Wolf reforms in 2012, and that replaced a qualifications-based funding system, with study programmes. In the study programmes were a major qualification, work experience and, critically, English and maths, which were a condition of funding if young people had not achieved the GCSE in English or maths at school. This was a big challenge to the college sector. Why did Alison Wolf recommend that? Because you get the biggest return on English and maths compared with any vocational qualification, so it is absolutely fundamental. I guess we all recognise that in the people we deal with, or employ—

Q84 Chair: It is not so much the policy as the funding of it that we are questioning.

Peter Lauener: I apologise.

John Pugh: Nobody disputes the policy.

Peter Lauener: It then became the top priority for the envelope for funding. I do think colleges have responded very well to that challenge, so the proportion of students studying English and maths if they did not have their GCSE has gone from in the 50s to 97%. That is absolutely tremendous. I visited South Leicestershire College recently and they were achieving higher GCSE pass rates for the group of young people that had not previously passed than other local schools. They really had taken on this challenge and were doing terrifically well.

Q85 Mr Bacon: Can you say that again? They achieved higher pass rates than the other schools?

Peter Lauener: For this group of young people that they had taken in. They were using innovative teaching methods, they had a quite inspirational tutor, who I talked to, and they were achieving very good results.

Mr Bacon: They were higher than—

Peter Lauener: I should slightly qualify it. He was hoping and expecting that when all the results were confirmed—he was very optimistic about the results for this group of young people.

Mr Bacon: I am just trying to get you to reiterate with whom you were comparing.

Peter Lauener: Higher than the GCSE rates at schools for 15-year-olds.

Mr Bacon: In the locality?

Peter Lauener: Yes. If he achieves that, it is great, and I saw some very good evidence of it.

Q86 Mr Bacon: Presumably you are going to get the person who is doing it better to explain to the others how they did it so that they can improve.

Peter Lauener: Indeed, and this is one of the great challenges with the challenge that the colleges have taken on. It has been a participation challenge first, and then we need to look at the success. In the end, participation without achievement is not worth that much, so we need to work very hard—

Q87 John Pugh: Mr Bacon's point is very important, because, on retake, the pass rate is something like 30%—it is fairly dismal—for English and maths. Someone who gets it right needs to be lauded far and wide and their practice broadcast.

Peter Lauener: Indeed, and I was very encouraged by what I saw. I need to see all the evidence of it, but they had really addressed it and they were actually extending retake classes to some of the adult college members—

Q88 Mr Bacon: Here is my point—it does also raise the question of what the others were doing previously.

Peter Lauener: That is absolutely fair—

Chair: We are straying a little—rather a lot in fact—into performance, which is great, but we are trying to focus on funding today.

Peter Lauener: We need to gather the research properly on what is working with this group of young people who have clearly not been successful at school. We need to look at the pedagogy, we need to look—

Q89 John Pugh: You have successfully evaded the question of whether you think the funding is adequate. Can we press you on—

Chris Wormald: Shall we answer the funding question?

Chair: It would be good if you could—

Q90 John Pugh: And incorporated in the answer, a point was made by one of the other witnesses that there was funding for special needs, capital funding and demographic growth funding, which was mentioned earlier, which has disappeared off the agenda, and that sort of thing would appear to be part of the response to under-achievement.

Chris Wormald: We do not fund the English and maths challenge separately—that is all part of the £4,000 unit of funding. We have not allocated a specific sum to individual colleges to do that. What we did do is invest £30 million in supporting the FE sector to improve the quality of their post-16 English and maths, which most colleges spent specifically on additional staffing and training of people to do it.

Q91 Chair: So £30 million across the whole country?

Chris Wormald: Yes. So you get your standard rate and then there was a £30 million one-off investment which was about upping the capacity—

Chair: And that is spread across all providers?

Chris Wormald: That was for the further education sector specifically. We are extremely pleased with the results of this—as I say, 97% of people are doing it and we have, compared with 2014, 4,000 more passes in English at age 17 and 7,500 more passes in maths.

Q92 Chair: But that is the policy; the policy was to achieve that.

Chris Wormald: Yes, but this is an area where we feel colleges have risen very well to the challenge.

Q93 John Pugh: The key factor there is not the number of people participating in it, nor the number of passes, but the percentage of people who participate who gain passes.

Chris Wormald: No, that is 4,000 individuals who now have English and would not have done in previous years.

Q94 John Pugh: I accept that. I just have one small point about post-18 provision. Was that changed in January 2014?

Peter Lauener: Do you mean the reduction in the funding rate for 18-year-olds?

John Pugh: Yes.

Peter Lauener: This is for a group of young people who are in their third year, post the original compulsory leaving age.

Q95 John Pugh: Am I right in thinking that the impact was greater on the FE sector than on sixth-form colleges?

Peter Lauener: That is correct.

Q96 John Pugh: What was the reason for that?

Peter Lauener: This was a very difficult decision for Ministers. Ministers were very clear, when they had to take this decision because of the 2013 spending review settlement, that it was not a reduction they wanted to make. They looked round at all the places it could be made in the post-16 budget and decided this was the area that would have the least adverse impact on students. We looked at an equality impact assessment and found very little difference between the characteristics of students in their third year and—

Q97 John Pugh: Just quickly on that—are you inclined to revise that? You are now getting a large number of 16 to 18-year-olds who may have finally got over the hurdle of a GCSE in maths and may actually be looking for some further qualification. At that point, the funding is gone. Given that new cohort, are you inclined to review the impact assessment?

Peter Lauener: Clearly that is a policy issue for Ministers, but I do not actually draw quite the same connection because I think they are separate and independent issues. One thing I have talked about with colleges is whether there are ways of pushing young people through more quickly and easing the path of progression to apprenticeships, rather than going through two years and then, in some cases, a third year. Can we get more of those young people through to apprenticeships, which give them the job they really want, with training as part of the job? There are a lot of opportunities still to build a better system.

John Pugh: Okay. The colleges raised the matter, so I raised it.

Q98 Karin Smyth: I have a similar point. We have talked a lot about the impact on institutions, but I am much more interested in the impact on the young people. In Bristol, we have classically a lot of increased competition and more academies going to 18, I think, than anywhere else in the country. One college has leadership rated “good” but a £7 million deficit. My constituency of Bristol South is the one where you are the second least likely to go on to higher education. The sector is absolutely critical to the life chances of young people in the city. I still do not know who is responsible for the outcomes of young people aged 16 to 18 across all those sectors under this funding regime.

Peter Lauener: Who is responsible for the outcomes of 16 to 18-year-olds at the college?

Q99 Karin Smyth: At the college, at the schools and at the academies that are now in competition for numbers of people on seats.

Chris Wormald: Obviously, the Department for Education has overall responsibility for 16 to 18 standards. Those institutions have always been in competition—well, certainly since 1992. It has been the policy of successive Governments that 16 to 18 should be driven by choice and competition for learners.

Q100 Karin Smyth: But at some point, the local education authority would have been able to intervene in that to ensure quality was assured across schools and the college. It no longer has that power.

Chris Wormald: Here we are, getting into a policy question. As you know, my Ministers would argue that the policy of local authority responsibility did not deliver high standards and that a system of academies and independent providers is likely to provide higher standards, but that is a policy debate I should probably not have with you.

Q101 Chair: What Karin Smyth rightly raises is that there is a plethora of organisations looking at the effectiveness and quality of provision in the FE sector. You have the Departments, the SFA and EFA—though they are now under one person, so maybe they are merged—Ofsted, the Sixth-form College Commissioner and the FE Commissioner. There are an awful lot of people looking at different elements of academic and financial performance. Would you still say, Chris Wormald, that the buck stops with you?

Chris Wormald: For 16 to 18 education, Ofsted is obviously an independent organisation. The Sixth-form College Commissioner is in fact part of the EFA, and most of our responsibilities in this area are discharged via the EFA, and then the Regional Schools Commissioners—who, as you know, look after academies—are also part of the Department, so one way or another, with the exception of Ofsted, all those bodies come to us. There are, of course, maintained school sixth forms that remain part of the local authority, because at the moment we have a system in which there are two providers.

Q102 Chair: Before I bring Karin back in, you talk about policy issues, but for FE colleges this was a very stark Report about a whole sector, so you can see, whether or not you agree with it, that there is the competition policy, effectively in every area, and there may be individual winners and losers, but the whole sector is struggling. It is like a “Heads I win, tails you lose” approach. Whether you are looking at school sixth forms or university provision, there are hard decisions being made in Whitehall, but it seems that the FE sector is the loser in many of these decisions.

Chris Wormald: No, I don’t quite agree with that. When you look at what the previous coalition Government did for 16 to 18, it equalised the funding between school sixth forms and further education, which was very big move. It carried out the Wolf review of vocational education, to try to put it on a level playing field, and it, and the current Government, massively expanded the number of apprenticeships, which is a big opportunity for further education, so I don’t think we’d accept that there have not been opportunities for further education. But the bottom line is that, as Martin has said already, we are talking about autonomous institutions that own their own destiny, and—there is no getting away from this—we don’t plan it as a sort of national system.

Q103 Chair: But they are funded nationally.

Chris Wormald: As I say, for 16 to 18 we fund the learners. What we are doing is this—this is a response to the financial pressures on the system, and nobody denies the financial pressures on the system that the National Audit Office has identified. That is why we went first for the system of the FE and Sixth-form College Commissioners in 2013—that was a very big move—and then to the area reviews in this Parliament, which are an attempt to ask those bigger strategic questions about the future of the provision in the area. So the Government—both the previous Government and this Government—is moving in the direction you’re suggesting.

Q104 Chair: Possibly shutting the door after the horse has bolted?

Chris Wormald: No, I wouldn’t accept that. It is a difficult balancing act between wanting a system of vibrant autonomous institutions that own their own destiny and the requirements of strategic planning that the funding pressures create. I am not going to say we have always got those right, but that has been the balance.

Chair: I think it is fair to say that if that’s what you’re aiming for, it doesn’t come across as anything other than a struggle to manage to maintain both those positions at the same time.

Q105 Karin Smyth: The issue for me, certainly in Bristol South but also for the city, is how that affects children from lower-income families in particular. Much like Sarah Wright said about East Sussex, we are a booming economy and we are a net contributor to the Exchequer in terms of employment and taxes, but those young people are falling further and further behind in their ability to access the opportunities and the work available, partly because of their skills and educational base, which, in a competitive environment—I accept that might breach into policy areas—still makes it unclear to me who is really taking responsibility for improving those young people’s life chances, in particular helping them through the levels that they might need to get through to access those better jobs.

Peter Lauener: My answer to that is that the primary responsibility, as in any institution, is with the governors and the leadership of that institution.

Q106 Karin Smyth: They have got a 2 for leadership and management and the neighbouring college has a 1, but they’ve got a £7 million deficit—which is why this is such an important Report for the city—in terms of their ability to survive and therefore give those life chances to those young people.

Chris Wormald: As I said, no one doubts the financial strains on the sector, and we all know where those issues come from. What I would say is that, as discussed by this Committee in its previous form before the election, when we took a Report on 16 to 18 education, we are now getting more output for less spending in this sector, along with the lowest NEET rate we have had since we started measuring.

I am trying to be very clear here: there are big pressures on the sector—nobody denies that—but we do have a lot of colleges, schools and sixth forms that have stepped up to the mark in terms of improving outputs.

Q107 Karin Smyth: Apologies, but I didn't quite pick up the answer to John Pugh's question about equality impact assessments on the children who I am talking about.

Peter Lauener: For 18-year-olds.

Karin Smyth: No, for 16 to 18-year-olds.

Peter Lauener: The answer I gave to Mr Pugh was about the 18-year-old group on its own, rather than 16 to 18-year-olds.

Q108 Karin Smyth: So, given my point about the ability of the young people in that cohort, are there equality impact assessments on 16 to 18-year-olds?

Peter Lauener: I come back to the area reviews. There is not one set up yet for the Bristol area—I think you are referring in particular to City of Bristol College.

Karin Smyth: That is the main college providing it.

Peter Lauener: That has been subject to a review by the FE Commissioner, because the college was referred to David Collins because of inadequate financial health.

Chair: David Collins is the FE Commissioner—those who are watching might not know that.

Q109 Karin Smyth: There was its financial health, but it was better for leadership and management. We may ask questions about the inspection regime as well.

Peter Lauener: Those issues have been highlighted. David Collins has published his report. You are quite right to draw attention to City of Bristol College; it has significant financial challenges.

Q110 Karin Smyth: We are good for report and inspection and not very good for action and the ability to do something about it.

Chair: There's a tip to Mr Lauener. Perhaps you can have a chat about that outside of here, because it is a fair point to make.

Peter Lauener: That is why the area reviews have been set up.

Q111 Chair: I want to move us on to oversight arrangements. Mr Donnelly, I have just listed the alphabet soup of organisations—the plethora of bodies—that are looking at and supporting FE. It's not very streamlined and one could argue whether it's very effective. Given that the sector is facing such significant challenges, do you think this system of oversight works?

Martin Donnelly: I think we have improved it significantly.

Q112 Chair: Do you mean that there were more bodies before?

Martin Donnelly: As we were saying earlier, we have brought them together. As feedback from colleges confirms, having an FE Commissioner who is a very experienced leader in the sector, with a very small team—I think, 20-odd people now, also with similar experience—is enabling us to support colleges and their governors to make the decisions that they need to to succeed.

Q113 Chair: We have heard evidence—indeed, from colleges who have had support from the FE Commissioner—about that being good. As you say, it is a small team, and the NAO says 70 colleges could be in financial deficit—rated as inadequate in terms of financial health—at the end of the next academic year. I keep repeating that because it is a stark figure. Have you got plans to support the FE Commissioner more if it is such a good model? Why did it only come into place in 2013 when this was, if you like, work in progress—or there were problems in progress—before then? And have you got any plans to make sure that he is well resourced enough to support colleges as he needs to?

Martin Donnelly: I think we became aware in 2012-13 that there were increasing issues for colleges and that it was important to provide intervention support earlier. Obviously there is a balance here, because colleges are independent and we do not want to interfere unnecessarily, but I think we have found a good balance with the combination of the FE Commissioner. We have increased significantly the resources we have provided to him over the last 12 months.

Q114 Mr Bacon: How much does he get now?

Martin Donnelly: He has a team of about 24 or 25.

Peter Lauener: Colleagues in BIS are recruiting at the moment for additional support for David Collins to make sure that he can deliver the very challenging agenda that is ahead.

Q115 Mr Bacon: The Chair mentioned 70 colleges in deficit, as referred to in the Report. Paragraph 4.9 talks about 27 colleges visited in eight months between November and June. At that run rate, he would not be able to do 70 in a year, would he? Given the resource changes that you are making, are you expecting that he will be able to support, as you call it, all the colleges that are in difficulty? Is that the idea?

Peter Lauener: That is the intention. We are going to staff it appropriately. It is not just about particular colleges, because David Collins also has a leading role in the area reviews. We are also supporting that with a joint team to prepare all the data for the area reviews. I have put one of my people from the EFA at the head of a joint EFA/SFA unit working with BIS and DFE colleagues, so there is a very joined-up process to support the area reviews. The numbers have already increased—the number of cases that David Collins has looked at is already a little bit higher than that.

Mr Bacon: He comes with a very good reputation; we hear only good things about him.

Chair: He has got a big job.

Q116 Mr Bacon: I am just concerned that he has got what he needs and is sufficiently staffed up. Does he have a budget whereby he can buy in services as well, or how does it work?

Peter Lauener: We recruit the advisers, who generally have got FE experience, to support him. They are often retired from previous successful executive roles in the FE sector.

Q117 Mr Bacon: You recruit them? He doesn't recruit them?

Peter Lauener: Well, David has a big say in recruiting the right people. I was very pleased to be on the panel that appointed David Collins and I think that he has been a tremendous asset to the sector. The NAO's Report recognises the contribution that he has made and there is a lot of very good feedback, despite the fact that he delivers a lot of very hard, difficult messages when he reviews the colleges.

Q118 Chair: Given that there seems to be an acknowledgement that he is doing a good job, how many colleges do you think will be rated inadequate in 2016-17 as a result of his intervention and other interventions that you have been overseeing?

Peter Lauener: The current number of colleges rated as inadequate is 29. The forecast that you referred to is 70. I should say that that is not a forecast; it is a projection based on a series of standard assumptions. But we are doing our latest review of the number of colleges in inadequate health now, based on the budget forecasts that colleges returned in September, and we expect the number to go up from 29 to the mid to high 30s. I cannot give a precise number, because we are still moderating and—

Q119 Chair: So you think it will be lower than 70?

Peter Lauener: I really can't make a forecast based on all the variables at the moment. It depends, critically, on how quickly colleges themselves adjust, it will depend on the budget settlements from the spending review and it will depend on the decisions taken as a result of the area reviews. There are a lot of moving parts there.

Q120 Chair: One of the factors for colleges, as we heard about in our evidence session at the beginning and elsewhere, is that you now have a twin hat for two different funding regimes that allocate their funds in different ways. Therefore, that is quite complicated for colleges; it does not aid their planning and forecasting. Would you not agree that it doesn't make it easier? Yes or no?

Peter Lauener: One of the reasons that I—

Q121 Chair: Do try yes or no; it would be good if you think you can.

Peter Lauener: I think we are already joining up much more than previously, but there is more to go.

Q122 Chair: But what will you do to make colleges be more realistic in their financial projections, because that was a comment in the Report? It said that some colleges are better than others at projecting ahead. You have got the FE Commissioner coming in. Is there something that you will be doing with your hat on?

Peter Lauener: One of the things that we need to do as a funding agency is to be much better at feeding back to colleges all the data that we have got—and there is a lot of it—so that they can understand their own context more clearly. We have started feeding back dashboards; we are doing more work to look at a wider range of factors, looking at the data that leads to financial inadequacy. I think there is a lot more we can do, and it is SFA and EFA people working jointly together. I am busy joining up my finance teams as we speak.

Q123 Chair: Are you convinced then? You sound positive, Mr Lauener—I have to say that you always sound positive in front of us—but the key thing is to prevent the crisis in the first place, rather than to intervene afterwards. How can you convince us as a Committee that you are going to be better at preventing the crises that are being predicted?

Peter Lauener: There are three things that we're doing. First, we are trying to do much more on early intervention and putting all the data that we have got together, rather than just the pure financial health indicators, which tend to look backwards a bit. We want to look forward as much as we can. We will be sharing that with colleges, and we are planning a series of events to take the results of that work to college governing bodies next spring. That is the first thing.

The second thing is the programme of area reviews that we have all talked about, and that I think is absolutely fundamental. It is due to cover the whole country by March 2017. Implementation will take longer, but that is the pattern for the area reviews.

The third thing is that we are very keen to learn from other areas where this works. The NAO Report referred to Monitor. I have been looking at that and we have some meetings with Monitor people next week. We have actually done quite a lot in the Education Funding

Agency and I am taking things into the Skills Funding Agency, because we have had the small matter of 5,000 academies to deal with over the last few years.

The big advantage is that you get a lot of data to develop forecasting techniques with. So there is a quite a lot we have done, which I have talked about in this Committee before, to develop analytical techniques, and I think that there is a big scope for working together and learning from different organisations.

Martin Donnelly: I just briefly want to highlight one point about the intervention policy and the “inadequates”. We have had 15 colleges that have successfully got themselves out of that category—in places such as Stratford-on-Avon, Weymouth and Wolverhampton—and it has been through support to the leadership of the colleges. So it is not just a one-way process; it is intense support for the leadership of the organisations.

Chair: But those are the independent bodies that you do not want to interfere with too much—there is an interesting tension there. Very quickly, Mr Wormald.

Chris Wormald: Unsurprisingly, I discussed this hearing with the FE Commissioner before I came. One of the points he makes is that, of the colleges he has worked with, he has yet to find one where there isn’t an answer, that is, applying things that other colleges already do is the answer to the financial problems of the colleges he has been working with. There is, therefore, a very key bit, which is about feeding back what he has learnt into the sector, because everything he is doing is already being done by some other college.

Q124 Chair: That is interesting, because there is always an answer to funding and that is cutting services, but that might not be good for learners in value-for-money terms.

Chris Wormald: Well, as I say, it is something another college is already doing around management and leadership instruction and so on.

Q125 Mr Bacon: I am very relieved about that, Mr Wormald, because if you reverse what you just said—that he has yet to find one where there isn’t an answer—it suggests that if you found one where there wasn’t an answer, the only words you could utter to them would be “You’re doomed”, which does not help very much.

Chris Wormald: I am glad to have reassured.

Q126 Mr Bacon: Mr Lauener, you are the chief executive of these two bodies. At the moment, am I right in thinking that they are broadly separate executive agencies with their own infrastructures, apart from the fact that you are the chief executive of both? You have said that you are working more closely together but that there is more to do. You are still two bodies, pretty much, aren’t you?

Peter Lauener: Yes, there are two bodies, but I am increasingly joining up so, as Mr Donnelly said, I have a shared HR service from the DFE. I am developing shared finance and assurance services by joining up the EFA and SFA teams, and I will get savings as a result.

Q127 Mr Bacon: What is the cost of running the Skills Funding Agency and what is the cost of running the Education Funding Agency, distinct from the money you give out? Correct me if I am wrong, but I have got that for the EFA it is £54 billion and for the Skills Funding Agency it is £3.7 billion. Does that sound about right?

Peter Lauener: The programme costs are £54 billion in the Education Funding Agency and £3.9 billion in the SFA.

Q128 Mr Bacon: But the running costs, as distinct from that, are what?

Peter Lauener: This is a figure I should know.

Mr Bacon: As chief executive of both, I would hope so.

Peter Lauener: The running costs of the Skills Funding Agency—I may need to write to confirm these because I might get them slightly wrong—are about £75 million².

Chair: Someone behind you is nodding.

Peter Lauener: That is always a good sign, which you can see and I can't.

Mr Bacon: It depends whether what you are saying is in contradiction to what they are saying or not.

Peter Lauener: It is a very similar figure for the Education Funding Agency. We get some economies of scale and obviously, again, that is why I am joining up some of the finance and assurance services.

Q129 Mr Bacon: Obviously, we cannot predict the whim of a Minister at any point any more than you can, but an obvious direction of travel would end up with your merging, even though there would be managerial functions that would be focused specifically on one cohort of these FE colleges and others that were much more specific to the somewhat different requirements of schools. But were that to happen, would you be confident that you could merge effectively and efficiently and also that you could do so in a way that did not create problems of its own, as we have seen so many mergers do, in the public sector and indeed in the private sector?

Peter Lauener: I took the job on the basis that there was no planned merger.

Q130 Mr Bacon: But isn't that an obvious direction?

² Note by witness: The dedicated administrative cost of the Education Funding Agency for the 2014-15 financial year was £71 million; a further £33 million of accommodation and other costs were borne by DfE and recharged to EFA, making a total of £104 million. The comparable figure for the Skills Funding Agency was £98 million.

Peter Lauener: I am perfectly happy to operate in any way that Ministers ask me. Regardless of that issue, I have just been busy joining up all the functions.

Chair: I think that your knighthood is winging its way towards you, Mr Lauener.

Q131 Mr Bacon: In terms of releasing funds and creating efficiencies that mean there is more money for the frontline, in Mr Wormald's words, we have been funding an FE sector that has been able to get more for less. The cost for that is £150 million—

Peter Lauener: And that is exactly what I have been doing. I have been joining up across the EFA and the SFA. I have been joining up leadership teams. I have a single director responsible for a joint area and review unit. Lots of colleges have been going through this type of process, finding ways of making savings in leadership, finding ways of being more efficient and more effective. I am spending a lot of my time trying to do that as well.

Q132 Chair: I know that both permanent secretaries want to come in; if you can both be brief, you can share the time between you. I will then bring in Deidre Brock.

Chris Wormald: Clearly, the decision Mr Bacon describes is possible, but that would be for future decision making. There is currently no decision to merge, but we keep the arrangements under review. The only thing I would say is that the history of this whole area has been constantly to reorganise the middle tier. There has been the Learning and Skills Council, TECs, the Further Education Funding Council, and I think Peter ran the YPLA at one point³.

Mr Bacon: The one constant, Mr Lauener, has been you.

Chris Wormald: I have made the same point myself at times. I am not sure that all those reorganisations have always added a lot to the party.

Q133 Chair: Mr Bacon was rightly raising the saving of money.

Chris Wormald: Exactly. Our entire focus is on how we make the existing system work best as opposed to how we rearrange it. You can obviously take a decision to rearrange, but the focus has to be where described.

Martin Donnelly: Very briefly, I will not repeat what Chris has said, but we are totally committed to getting the most value we can get out of the least administration, while still delivering. Your point is well made, and it is also one we are aware of in relation to mergers of colleges. Mergers are not straightforward or easy and have to be very well planned if they are going to produce savings and not affect but hopefully improve quality.

³ To clarify: TECs stands for Training and Enterprise Councils and YPLA was the Young People's Learning Agency.

Q134 Chair: And often well-resourced at the point of the merger.

Martin Donnelly: The transition can require resourcing.

Chair: Glad to have that on the record.

Q135 Deidre Brock: What actions will you be likely to take as a result of the area-based reviews? What outcomes are you expecting—what are you hoping for?

Peter Lauener: We have now set out along the road, and seven area reviews are under way. The first one out of the box was Birmingham. The steering committee will have the first substantive discussion in the next week or so about some of the early findings, so we are at an incredibly early stage with the area reviews. As I have already described, the guidance that Ministers gave is that area reviews have to start from analysis and go to structure, but we have a clear expectation that they will result in fewer, larger, more specialised colleges that are less dependent on public funding. That was a very clear message that was given, so I would expect fewer independent institutions, but that does not mean closing particular sites down—it is the process we discussed earlier.

Q136 Deidre Brock: Okay. What are you doing to ensure that those reviews take place? For example, if you get a local institution that does not proactively initiate the reviews, what actions can you take?

Peter Lauener: I would say there has been a lot of support for the reviews across the further education sector and sixth-form colleges. There has been a lot of engagement. Our intention is always to have a local chair if there is a combined authority. In Manchester, the review is chaired by the chief executive of Trafford Borough Council who leads for the Greater Manchester combined authority on skills. In Sheffield city region, again there is a local chair. Where there is not a combined authority, the chair may be taken by David Collins as the FE Commissioner, but it does bring together all the parties that we discussed to start with the data and work from that.

Q137 Deidre Brock: So you generally feel that there has been buy-in from the different areas you have approached so far?

Peter Lauener: I would say so. That does not mean that really difficult, hard issues won't come out of the area reviews, but the reasons for having them is a recognition of what a lot of Committee members have been saying: the sector faces significant challenges and we cannot just go on as we are, addressing them on a sort of college-by-college basis.

Martin Donnelly: From that point of view, the early pilots in Norfolk and Suffolk or Nottingham have been encouraging and produced real outcomes that I think improve learner provision.

Mr Bacon: In that particular respect, the Norfolk college, Easton college, was in my constituency and merged with Otley. Takeover is a word that probably wouldn't be

diplomatic, but it was managed to a very considerable extent with the skill of the principal of Easton college at the time, David Lawrence, who is an exceptional manager. I am not confident that the FE sector as a whole has people of his calibre, so it is something you need to watch very carefully.

Q138 Deidre Brock: If you come across a college through these review boards that is felt to be failing, what is the ultimate action and who out of the different oversight bodies in the area makes that decision? Who ultimately takes that decision? I know it is the responsibility of governors, but they might not be inclined to agree with you.

Peter Lauener: We are looking for, and hope that there will be, agreed recommendations coming from the area review steering groups. If a particular governing body does not agree with the recommendations, Ministers would need to consider whether those objections are reasonable or whether we should apply funding conditions to secure the outcome that local partners want.

Q139 Deidre Brock: When you say “apply funding conditions,” do you mean take the funding away?

Peter Lauener: It would be possible to apply conditions to funding to secure co-operation.

Q140 Deidre Brock: Would the Minister step in?

Peter Lauener: The Skills Funding Agency or the Education Funding Agency would be the means of implementing any funding conditions. There are, of course, quite a number of colleges, as Members have mentioned—

Q141 Chair: Can you detail what sort of funding conditions you are talking about? There is a bit of puzzlement on the Committee when you talk about funding conditions. Could you give a couple of examples?

Peter Lauener: If there is a well-founded case where all the partners in an area thought that there should be a rationalisation of provision—let us say that there is duplication of provision—and one governing body said, “There might be duplication of provision, but we are very fond of that provision and we want to keep it,” but all the other local partners agree that there is a better way, a funding condition might be that the college should co-operate with the other colleges in the area.

Q142 Chair: But, from what Mr Wormald was saying, that would not apply to sixth forms.

Peter Lauener: As Chris explained, sixth forms are not formally part of these area reviews.

Martin Donnelly: I emphasise that the area-based review is very much a local-based process that will produce recommendations, and part of its strength is to allow the local area, with the LEP, the local authority and so on, to look together at their needs going forward. We see this as an opportunity for regions to take control of their own destiny.

Chair: I think we have covered that ground already, Mr Donnelly, with respect. Any last points, Deidre?

Deidre Brock: No.

Chair: The Comptroller and Auditor General wants to come in, and then I have a few areas that we still need to cover. I hope that we might finish in 20 minutes.

Sir Amyas Morse: I only wanted to make sure—thinking back to your comments earlier, Peter—that the objective of this is to produce a smaller number of larger, more financially independent colleges. Where the rubber will really hit the road in the local reviews is where you need to take out or amalgamate one of the colleges. That is the most likely difficulty. When you say “taking away provision,” the most difficult dialogue will be about whether you say, “Well, you actually have too many colleges in this area. We need to rationalise and have fewer.” That is the same discussion we have in relation to hospitals, and it is difficult to have in a local area, isn’t it? It is the same idea. That is where it will be difficult, and it puts great pressure on local consensus if you are looking for decisions that achieve quite large savings. I am trying to be clear about it.

Peter Lauener: I think Martin captured it very well. It is about local consensus, which will be a very powerful driver of what should happen. It is quite right that this is about all the parties that I talked about earlier. It is about representatives of the community, local authorities and business through the LEPs. If there is that consensus, and if it is rationally presented and rationally argued, I hope that all parties would work together to produce the outcome.

Sir Amyas Morse: As the discussion goes on, and I see this as necessary, you have already said that your teams will be providing the staff work and the analysis to support all this so, notwithstanding that you need local consensus, the actual analysis and a lot of the thinking about what looks viable and what does not will be supported by your people.

Peter Lauener: Yes.

Martin Donnelly: Can I just underline the difference? The analogy you made, as we know, does not go all the way. Hospitals are not the same as local colleges.

Sir Amyas Morse: I am not trying to take it too far.

Q143 Chair: He was just trying to illustrate with the nearest comparator.

Chris Wormald: Also, to be clear, we are not trying to nationalise decisions. It has come out very well from the Committee's questions that we need to have a very detailed understanding of particular areas and particular economies. We are trying to create a system that allows the local conversation to go on and a consensus to emerge so that people can take independent decisions. It is not about, "Here is the master plan from Whitehall."

Chair: Okay. Anne-Marie Trevelyan has a brief point on this subject.

Q144 Mrs Trevelyan: I have a quick remark. In my area in Northumberland we have one college, Northumberland College, which is relatively small, but it covers a vast area—thousands of square miles—and there is a real anxiety that the area review will force them to get sucked into the Newcastle College framework as a satellite. There is a real anxiety that there will not be, as you clearly described, the local partnership voice, because they will be outnumbered. It is a huge rural area, but with a small number of people. I imagine there are other parts of the country where that mix of urban and rural can be a real tension with these reviews.

Peter Lauener: The issues will come out in the reviews. I recently met your former principal who went down to Chesterfield College. He did a great job at Northumberland working with Jacqui Henderson to turn round the college. Again, we do not have a template for saying it ought to be this way or that way. We are genuinely hoping and expecting that the area reviews will produce new and maybe innovative solutions.

Q145 Chair: Can I take us back to the intervention process? We want to tease out a couple more points on it. The NAO's report found that some colleges had doubts about the effectiveness of the notice of concern process. Can you explain to us what that process is intended to deliver?

Peter Lauener: On the process we go through—I talked about it earlier, so I will try not to repeat it—we make a twice-yearly assessment of financial health on clearly set-out factors; people can do it themselves. We feed that back to the colleges, and if we conclude that the college is in inadequate financial health, now the thing that we do, which was not available two years ago, is to refer the colleges to David Collins, the Further Education Commissioner, for review, and he will go in with his team and produce a financial assessment of the college.

Q146 Chair: But is there an example of getting things so bad that the FE Commissioner needs to come in? Perhaps a bit more preventive work at that point would be better for the health of colleges.

Peter Lauener: That is why I talked earlier about the work I am now trying to take forward with my own team to try and get a better analysis of the factors that lead to financial inadequacy, and I am absolutely clear that I want to share those with the sector. I do not want to do it in a little Whitehall box. The earlier that those issues can be shared with leadership

teams and governing bodies, the more pre-emptive action can be taken to prevent deterioration. Again, this is one of the things that David Collins has talked about. He has said that in a number of the difficult cases that he has looked at, he can see decisions that should have been taken earlier. The good news is that he is giving clear messages about that. We need to take that back in our discussions with the sector. That does not mean we are telling people what to do. It just means we are being as transparent and open as possible with the data so that the governing bodies can take the appropriate decisions.

I will give you an example. One of the very clear messages that David Collins gave in one of his letters to the sector was that governing bodies should have a very wary eye if there is any suggestion that the ratio of borrowing to income goes above 40%. He says that very clearly. There are quite a number of colleges with that, but that kind of transparency of message puts up a flag. I went to a college governing body away day recently. I said, “What is the figure that David Collins has said you should not go above?” I was pleased to find that that particular governing body—

Q147 Chair: The message had penetrated.

Peter Lauener: They knew the answer. Fortunately, they were quite a bit below it.

Q148 Chair: I want to move on to capital costs. There has been encouragement—we heard from Ian Ashman earlier and about his case—to build new premises. That has left a number of colleges saddled with large capital debts, so what is the plan? A lot of taxpayers’ money has gone into that. For all the area reviews and so on, if you have got a college that has expensive premises and no one in them for demographic reasons or because the market is not sending people in that direction, what are you going to do about that?

Peter Lauener: First of all, the capital programmes that have run over the last five years have helped to reduce the size of the estate by about 70,000 square metres, which makes quite a considerable contribution to efficiency.

Q149 Chair: But if they are servicing a large debt as a result—

Peter Lauener: We estimate the reductions in very poor-quality estate, which is very expensive to run, are actually saving the sector about £57 million a year.

Q150 Chair: This is one of the things that may be different for the sector as compared with some individual colleges. That is what I am driving at. How are they going to survive?

Peter Lauener: It is certainly the case that there are individual colleges with a large debt, which dates back to the Building Colleges for the Future programme in 2008-09 when that programme was stopped. We heard the example earlier of Central Sussex college, where they have got very real problems because of large debt incurred when there was no grant to

support the final phase of their programme. We have tried to reflect that in the decisions that were taken since then in the allocation of capital funds, but that is never a perfect process.

The remaining capital funding now sits with the local enterprise partnerships to allocate to meet local economic needs, so the decisions are now taken by LEPs. Again, we heard some interesting examples earlier where some colleges have got support from their LEP for particular new initiatives linked to skills priorities. I think that that is quite a powerful model.

Q151 Chair: In a number of cases, the loans were turned into grants, so the taxpayer has got a double interest, if you like. Taxpayers' money has directly gone into colleges, which may have been a good way to sort out a particular college's problems, but it is slightly worrying that that money was given as a loan and turned into a grant, seemingly to bail out a college and perhaps for good reason, but without real regard for the impact on the public funds.

Peter Lauener: We always seek to minimise the cost to the taxpayer of any exceptional financial support that we put in place. We also seek to maximise the proportion of any exceptional financial support that we put in place that can be converted into long-term loans with the college. There are certainly some cases where we have to write off the exceptional financial support. There was the case of K College two or three years ago where a significant amount had to be written off as part of the restructuring of the college. I do not like doing that at all, and we always seek to minimise it. We are having very close, careful and intensive discussions with colleagues in BIS and Treasury about the best ways of managing any interventions we make to minimise the cost to the taxpayer. Area reviews are clearly part of this as well.

Q152 Mr Bacon: For the record, is it not worth saying that the only reason there were exceptional financial interventions is that those colleges proceeded on the basis of promises that were made to them and later snatched away? If you have a four fifths or three fifths completed building and you suddenly find the funding is not there, logically the only thing to do is to finish the building rather than leaving it like the Montreal Olympic stadium. Suddenly they were faced with the bill for this, which they were not expecting because of the "bigging up" process, as it was called at the time under Building Colleges for the Future, and the promises that had been made to them under that. Now you are saying to us that the decision about future capital funding is out of your agency's hands because it has been handed over to the LEP, so there is only a limited amount that you can do. That seems pretty unfair on the colleges, in some ways, doesn't it?

Peter Lauener: Well, the Building Colleges for the Future problems go back to 2008-09. There have been quite a number of years since then, including some significant capital investment programmes by the Skills Funding Agency. This is before my time, but some funding went in in 2010-11 and into the last Parliament, which recognised the particular circumstances of some colleges. I very often meet college principals who feel that they were disadvantaged by the mistakes that were made with Building Colleges for the Future. The Skills Funding Agency tried to remedy some of those under ministerial programmes, but we

were not able to remedy all those problems. Some of those problems caused the financial difficulties of some of the colleges now.

Q153 Chair: Karin Smyth and I did a representative visit to Bristol to talk to the LEP there. It really struck me that the LEP has a lot of power to make decisions about spending, but ultimately the accountability falls with other bodies. In some cases, that is the council tax payers of the local council, but in this case it is the colleges that carry the problems if there is a problem with funding down the line. Given the experience of Building Colleges for the Future, when, exactly as Richard Bacon said, the deal was done and then the last bit of money was withdrawn, how can colleges and providers have confidence that any capital money will run through and be delivered? You have not even got a handle on that now. Whom do they go to? They have to go to their LEP, which can wash its hands of the problem at that point. Do you bail them as well, as you have done in the past?

Peter Lauener: We never seek to bail anyone out.

Q154 Chair: Most taxpayers would say that turning a loan into a grant is bailing people out. It is like a bank manager giving you cash instead of an overdraft. Most of us would like that.

Peter Lauener: We sometimes seek to support a recovery plan if we think that it will take a college to a more stable platform and that it is in the interests of learners, the community and local employers. That is always the thing we look at first. I gave the example of a college—

Q155 Chair: Bailing out with a purpose. That's all right, then. I am putting words into your mouth, Mr Lauener. I know you don't like it. Carry on; sorry, I interrupted.

Peter Lauener: I will go with that phrase.

We face some difficult decisions over the next few years. The National Audit Office Report refers to some of the amounts on exceptional financial support. As I have said already, we always seek to minimise them and convert them into loans. Where there is a merger, our normal expectation is that loans will be taken on by the new body. What we are seeking to do in the area review process, working with the strategy coming from local partners, is—what's the best word?—to reset the equilibrium of the college sector in this country. It is such an important moment and such an opportunity to restructure provision. If I can give one little example to illustrate—

Chair: Briefly, because we are running out of time.

Peter Lauener: I was at a college recently, and if anything the result of an ambitious building programme was that they were left with a rather larger building than they needed. They were having productive discussions with local HEIs, which were interested, on a widening-access agenda, in putting in some of the HE provision in their building. That was likely to release some capacity for the college to develop more outreach with employers and

to put a different kind of provision out to the community, rather than the traditional, full-time provision, where people go to the college building five days a week.

Q156 John Pugh: On learning lessons, I want to mention just a small point. The colleges, in their submission, complained that they are having to cope with a capital funding regime that works on an April-to-March timetable. That is them saying it, not us. Do you understand the point they are making, and do you think the LEPs will do things differently?

Peter Lauener: I can't speak for the LEPs, but the Government of course has an April-to-March regime. Capital programmes often—

John Pugh: Go beyond that—

Peter Lauener: —are over a longer period. The last capital programme the Skills Funding Agency ran was planned and delivered over a two-year period. We had a particular cliff-edge problem with that programme, because from 1 April this year the money went to LEPs.

John Pugh: So the LEPs could replicate the same mistake.

Chair: Mr Donnelly, you wanted to come in briefly. I am aware of time, so I am trying to rattle through.

Martin Donnelly: For clarity on exceptional financial support, we published last week some updated guidance to take account of the area reviews. It is worth emphasising that there is absolutely no guarantee that any college would have access to that. It has to be on a case-by-case basis and genuinely exceptional, because the funding comes off the adult skills budget, and we don't want to have to do that.

Q157 Chair: Which brings me nicely on to the adult skills budget. This Committee has looked at apprenticeships in the past, and there is clearly a very big policy drive. I have had some evidence from Capel Manor College in Enfield, which, as you probably know, is an area-wide college that provides training for people on land management. As they rightly point out—there are other colleges like this, but it is quite a good example—apprenticeships are more difficult in that sector. I understand it is a growing sector, particularly in London—not just in London, but the college is based there. For their balance of budget to work for the sort of students they have, more adult skills and slightly fewer apprenticeships would work, but they are getting more apprenticeships and fewer adult skills—a big cut in the adult skills budget. How are you supporting colleges with that sort of difficulty and ensuring that they are actually training students with the skills that are needed for the future for their area? Will this come out in the area review or is it just tough for those colleges? Peter Lauener, do you want to go first?

Peter Lauener: That takes us straight into spending review territory and the decisions Ministers will need to take about all the budget priorities, including adult skills funding.

Q158 Chair: But this is an historical problem, isn't it? The adult skills budget has taken the big hit, but there is a lot more money going into apprenticeships.

Peter Lauener: The adult skills budget, outside of apprenticeships, has been cut and the apprenticeships budget has been increased. I was actually at Capel Manor about a month ago.

Q159 Chair: You have done a big tour of the country. You will get our award for the most travelled civil servant at this rate. Please finish that point.

Peter Lauener: One of the reasons I went to that college was that it has had a significant capital investment supported by the Skills Funding Agency. I think that the principal was hoping that it would help them to build their apprenticeships as well. He made the very same point to me, so I do not take it lightly, that some kinds of education do not fit quite as well in the apprenticeship world. What we are doing—what Ministers are doing—is reforming apprenticeships with new standards, with trailblazer groups setting up these new standards. Over the next five years, we will see quite a radical change to the standards for apprenticeships. I hope that some will work in the horticultural sectors, which is Capel Manor's very great specialty.

Q160 Chair: One of the points that they raise, which is a sensible one, is that it is often very small independent providers taking on the type of student that would be coming out of their courses. Small businesses in my constituency talk about the challenge of managing an apprenticeship. They cannot now split it across two or three companies, so a lot of them do not want to; they just cannot provide the resources needed to support an apprentice in the work place, whatever the educational provider is.

Peter Lauener: It is one of the interesting differences between different colleges at the moment—the extent to which they have adjusted their business model to apprenticeships. The Government could not have been clearer that apprenticeships are the major part of—

Chair: We don't need you to reiterate the policy at this stage.

Peter Lauener: Some colleges have now made this a much bigger part of what they do, which has big implications for their use of space because, typically, an apprentice will be at the college a day a week, rather than four or five days a week, and you would need to build the relationships directly with employers. These are things that give you benefits in everything that you do, including in your 16-to-19 work.

Q161 Chair: In answer to the question, will you be reviewing the balance of budgets with particular colleges? Does the funding formula allow that flexibility? It doesn't seem to. Maybe I am misreading it.

Peter Lauener: It is obviously for Ministers to decide on the amount that goes into the adult skills budget. We would then agree the allocation formula for the adult skills budget. I have talked already about the intention to simplify that budget, and the allocation

and funding methods of the next couple of years. Ministers have been clear that they are looking to give combined authorities a greater role in that area in a couple of years' time.

Q162 Chair: A couple of quick points, before I wrap up. Do you monitor the take-up of loans of adults going into higher level courses?

Peter Lauener: Yes we do. Part of the funding allocation we get, which doesn't go through—sorry, into higher education courses?

Q163 Chair: Higher level courses. So, if you are going on to a level 2 or 3 course, you have to take out a loan. For example, in my constituency, a mum on her own with a child might want to improve her skills to get a better job. She would be required to take out a loan to do that and that is quite a barrier. Do you monitor the take-up of loans and look at that across different cities and regions to see whether there is any variation?

Peter Lauener: We monitor the take-up. Included in our funding letter for the 2015-16 financial year was a facility of up to £498 million for 24-plus advanced learning loans. Again, it is one of these differences. Ian Ashman referred to it earlier. Some colleges have been very successful with that; others less so.

Q164 Chair: Do you look at the pattern? I imagine that there might be differences between some of the areas of members of this Committee.

Peter Lauener: We do look at that. I cannot quote you any figures, but I would be happy to send a note if that would be helpful.

Q165 Chair: I think that would be helpful. It does seem odd to me if you are not differentiating that as a routine thing, because it does make a big difference to the needs of a particular college and area. We have highlighted some of the differences around the Committee today. For all these independent colleges encouraged to do their own thing, it is a bit one-size-fits-all. If there is a problem, certain colleges will really suffer, because the funding set nationally does not match the local need. I am still not clear after a very long hearing quite how that gap is bridged.

Peter Lauener: I will happily send you a note about the advanced learning loans and the breakdown.

Q166 Chair: On the difference between the national funding formula and the local need, you say that area-based reviews will resolve it, but will that be enough? It does seem that we do not have an answer for that.

Peter Lauener: If I may make a general point on that, my view is that national funding formulas should be as simple, straightforward and rules-based as possible, leaving all

the discretion locally about what is best needed. I do not want to have any say—I do not have any say—on the pattern of provision that Hackney Community College puts on under its ASB apart from how the funding formula will affect the allocation. Those are local decisions.

Q167 Chair: We may take that up in our report. Before we move to a conclusion, I want to be clear on something. If a college does fail, is no longer sustainable, is in deficit and the deficit will not go and even the FE Commissioner cannot fix it, who picks up the pieces and the tab? Which Department is it? Is that you, Mr Donnelly? Is it the taxpayer?

Martin Donnelly: Obviously we do not want that to happen. You know that. It has not happened over the 20-odd years since 1992. I am confident that we are putting processes in place that will make it unlikely to happen.

Q168 Chair: So if it does happen?

Martin Donnelly: If it does happen, these are independent statutory corporations. The Government would not have any obligation to take on a college's liabilities. We hope, as I have said, that we do not get to that stage. We would be focused on looking after the learners. That would be our priority in this process.

Q169 Chair: But the learners would have to be provided for somewhere. In the end, ultimately the taxpayer would have to pick up the problems and an asset would be unused, if it really failed.

Peter Lauener: I gave you the example of Totton College, where it was exactly as Martin said. We took the perspective of the learners and ensured that there was an alternative provider and then we secured the existing land and buildings so that the public investment that had been made in that over the years was not lost.

Q170 Chair: This is an unprotected sector compared with other budgets, such as DFID and so on, that are protected. The Policy Exchange report that was launched today suggests that £500 million should be taken from universities in the spending review to give to FE colleges. I don't know, Mr Donnelly, whether you are able to comment on that proposal.

Martin Donnelly: I have only read the summary, and it is not up to me.

Q171 Chair: Absolutely, but is this something that your Department might put forward in the spending review?

Martin Donnelly: The point I would like to make, Chair, is that we focus on what is being purchased, and nearly 10% of HE provision—about 130,000 people—is already provided by the FE sector, so we are trying to bring together the providers, whether we label them HE or FE, to make sure that there is a level playing field on the basis we have discussed

before and that the providers that can do the best job get the funding. There are colleges—you mentioned Newcastle College Group before. They do rather a lot of HE; they provide foundation degrees and so on. There are other colleges. Blackburn partners with Lancaster University. Bradford has an important regional role. Derby does engineering with Sheffield.

Q172 Mr Bacon: City College Norwich—you didn't mention them.

Martin Donnelly: I didn't; sorry.

Mr Bacon: I have awarded their degrees, so I know that they do that.

Martin Donnelly: I just want to underline that the sectors are not as separate as people sometimes think.

Q173 Chair: I did not want to digress into this, but you have lifted the cap on students in the HE sector, which has a direct impact on the FE sector. Who is watching that tension in your Department to ensure that you are aware of the consequences of that?

Martin Donnelly: The point I would underline is that some of that HE provision, including foundation degrees, is provided by FE colleges and some FE is provided by HE institutions, so there is an overlap.

Q174 Chair: So the cap covers both.

Martin Donnelly: So it works both ways.

Chair: We have had an interesting hearing. It was long, but the National Audit Office's Report was very stark. This is a sector that provides hugely important education to many people. In my constituency, there are many who did not get the chance the first time around and many who want to increase their skills in low-paid, not very highly skilled jobs. We want a highly skilled economy, so it is absolutely vital that this is done right.

We have heard a lot about helpful oversight. I think there is a general feeling around the Committee that the FE Commissioner is a good thing, but all the feeling in the world will not reverse the impact of cuts. We obviously have the spending review coming up, so we will be watching that very closely. I think the Committee would agree that it is clearly unacceptable that so many colleges—potentially nearly a third—are likely to be in financial difficulty by the end of the year. If I may say so, there is still a tension, Mr Donnelly, between what both Departments set out from the centre of Whitehall and the impact on the ground. There is this disconnect between your decisions and the independence of colleges, which nevertheless see a lot of intervention. There seems to be some muddle there and we may reflect on that when we come to think about our recommendations.

Thank you very much for your time. We hope that witnesses will be shorter in their answers, so I put that to you for the next time. I think some of you have appeared before. Thank you for your patience as we cover this important sector. It is often seen as Cinderella

sector, and we have heard about some of the challenges today, so we look forward to producing our report, which we will get to you in the next few weeks, hopefully before Christmas. Thank you very much indeed.