



Business, Innovation and Skills Committee

Oral evidence: Spending Review the Work of the Department, HC 500

Wednesday 10 February 2016

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Members present: Mr Iain Wright (Chair), Paul Blomfield, Richard Fuller, Peter Kyle, Amanda Milling, Jonathan Reynolds, Amanda Solloway, Michelle Thomson, Kelly Tolhurst, Craig Tracey, Chris White

Questions 52-151

Witnesses: Rt Hon Sajid Javid MP, Secretary of State, Department for Business, Innovation and Skills, and Martin Donnelly CMG, Permanent Secretary, Department for Business, Innovation and Skills, gave evidence.

Q52 Chair: Secretary of State and Mr Donnelly, welcome to the Select Committee again. We are very grateful for you sparing the time. This is your second appearance in front of us and we are going to concentrate on not just the work of the Department but the implications for BIS of the Spending Review. Before I turn to that, Secretary of State, if I may, first can I thank you for your kindness and courtesy in telephoning me in the aftermath of the Spending Review to give me the heads-up in terms of how it will impact upon the Department? That was very kind of you and I really welcome that sort of engagement.

I want to start, if I can, on Lord Maude's resignation and the impact it will have on a key objective of your Department in terms of a £1 trillion target of exports and 100,000 new businesses exporting. What impact do you think it will have, given that you want to carry out a whole-of-Government approach to thinking about international markets and given Lord Maude's expertise in that field? How will it impact upon your targets?

Sajid Javid: Thank you very much. If I can start by, Mr Chairman, first welcoming this opportunity to come and speak to you and the Committee and thanking you for all the work that you do in providing good scrutiny to my Department and its operations. It is a welcome opportunity to talk about the Spending Review too. We have all had time to digest it and this will be a very fruitful discussion.

I guess we will move on to that shortly, but I am very happy to answer your questions about Lord Maude. First of all, he has not resigned yet. What he has said is that he plans to leave in the coming weeks. It is not a surprise to me, the Prime Minister and others. This has been planned. We knew that at some point he would want to leave. I would take this opportunity to thank him and commend him on the work that he has done since he has been in that position, especially the work around UKTI, refocusing it and putting so much effort into that, in particular, because that was one of the biggest things we wanted to do.

You talked about the exports target. I am happy to talk a bit more about that later and the whole issue around what we will try to do to boost exports. There will be a smooth transition process. I do not expect this change in the Trade Minister, when we eventually announce the new Trade Minister, to make any difference to our overall strategy in terms of trying to boost exports because Lord Maude has done the main job during his time there. The work will have been done and we will be able to reap the rewards, so to speak, of that. The work is still ongoing but he has set out a very clear strategy and we will continue to work on that.

Chair: You may be aware that the Committee is looking at exports and the role of UKTI and Lord Maude came before us in a private session.

Sajid Javid: I hope you invite me back to talk about it.

Q53 Chair: We would certainly welcome that. He came to a private session and was very frank, good and open in terms of what he hoped to achieve, so I would like to put on the record our thanks in terms of what Lord Maude has achieved. It is a shame that at a relatively early stage in the process he is now leaving to go on to different ventures, but that is the nature of politics.

Could we talk about the Spending Review? When you came before us on 14 October for your first invitation to the Select Committee, we were working on the assumption that there would be 30% to 40% of cuts in resource spending. The Spending Review showed that your Department had 17% cuts. You have got a good deal, have you not?

Sajid Javid: The first thing I would say is that after the Government had decided to protect defence spending, alongside health and others, BIS became the largest unprotected Department. What was clear, right from the start and before the Spending Review was concluded, was that BIS would be looked at to make a significant contribution. That is absolutely correct because I have shared with your Committee before my strong belief that one of the best ways to help business, and indeed the overall economy, is to make sure that the Government lives within its means. That means cutting the deficit. That is not possible without making what are, in many, many cases, difficult decisions around spending not just for our Department, but for others as well.

The indication at the start of the Spending Review to all unprotected Departments was about 25% to 40% real reductions over this parliament. That was the framework we were operating under in the Department and we clearly tried to work on that basis with the Treasury. We are very pleased with the place we have ended up. I know there are difficult decisions behind that, which we may come on to later. There are plans that there will be headcount reductions in the Department. These are never easy decisions. There are many difficult decisions behind that number. However, where we have ended up, with

just over 17% real reduction, allows us to protect our core functions of this Department, which if I had to summarise it, is to boost the productivity of this country over the coming years. It can help us make the economy stronger, help businesses prosper, make Britain the best place for the world to open and run a business but also to help boost productivity. In that sense, I am pleased that we can focus on that core function.

Q54 Chair: Do you think you have achieved that balance between living between our means and being able to boost productivity?

Sajid Javid: Yes, I do.

Q55 Chair: In your departmental letter to us regarding the Spending Review, which was very comprehensive and very welcome, it states that the Spending Review did not alter the Department's commitments under BIS 2020 to reduce annual operating costs by 30% to 40%, around £350 million, by 2020. You mentioned headcount; is it still the case that 30% to 40% of BIS Group's headcount will be reduced over this parliament?

Sajid Javid: Yes, of the BIS Group as a whole—not just what I call the core functions but as a whole.

Q56 Chair: The headcount in the BIS Group is around 24,000 staff so, on that basis, is it reasonable to say that there will be a reduction in staff of between 7,200 and 9,600 by the end of this parliament?

Sajid Javid: Martin, do you want to come in on that?

Martin Donnelly: Can I just clarify the figures here, because as you know the Group is quite complex? It has trading funds. It has some organisations that, over this period, may be moving to the private sector. We essentially pay for about 19,000 people. Within that, the BIS 2020 programme is focused on the overall operating costs of a group of about 11,000 to 12,000 people within that, so not counting trading funds and various other technical areas.

Q57 Chair: Is there any idea, given that reduction in headcount and given the changes within BIS 2020, of where more people will suffer and more organisations might see that reduction? Research councils, for example, employ a lot of people and I know there are plans to move the six research councils into Research UK. How many people will be employed by Research UK, do you think, by 2020?

Sajid Javid: I could not tell you specifically but, before I come on to where or how this headcount reduction might take place, maybe I can just put it in context of what BIS 2020 is all about, if I just take a moment.

It is for us to look at how the Department, with its partner organisations, operates. Is it being done in the most efficient way? How we can create a Department that is leaner, can make quicker decisions and is simpler? We have more of a focus on what we have internally called centres of excellence. As well as headcount reductions, there is a lot more to it that lies behind that, so we expect to see a significant cut in the number of partner organisations that we have. Currently it is around 45. I expect that to fall by about half by 2020. We will invest a lot more in digital, so using that as a more common digital

delivery platform throughout the partner organisations in the core functions itself. We will also be looking at all the different estates and that brings us back to the Sheffield announcement recently. We have 82 locations at the moment that BIS and its partner operations operate out of, and I would hope that over the next five years we could bring that down to about seven or eight, so a significant reduction in that.

When it comes to headcount, from my experience both before working in the private sector and now in the public sector, one of the hardest decisions that anyone has to make is when it comes to headcount reductions. It is never an easy decision and it certainly has not been for us. We are very much aware, and I am personally aware, that whenever we make a decision, like the recent announcement that was made in Sheffield, there are people's lives, livelihoods and families affected by that, so they are never easy decisions. We have to step back and decide what is best for the taxpayer. Are we getting the best value for money from all that money that is coming from taxes? We looked at how the organisation is set up and we do think that this kind of rationalisation is possible and is the best result, all things taken into account, for the people we ultimately represent, so we have started that process. Sheffield is the first announcement that we have made, but it is clear from me saying that we intend to reduce our locations, from the 80-odd to about a tenth of that, that there will be further such decisions. We have not made all of those decisions yet so I could not give you much more detail now, but there is a team within BIS, led by Martin himself, that is meeting on a very regular basis—three or four times a week—and doing work behind that to work out the best way to implement this plan.

Q58 Chair: We will come on to Sheffield in a moment, if I may, Secretary of State. You talked about partner organisations, and when you came before us in October you mentioned around about half from 45 to whatever it could be—20, 22 or whatever. Do you have any idea, within BIS 2020, which partner organisations will not be part of the BIS family by the end of the parliament?

Sajid Javid: I can give you some sense. I can tell you straight away that the Green Investment Bank will not be, as we have plans to privatise that, so that is a more straightforward answer. We are also planning to go ahead with the reforms that were suggested by Sir Paul Nurse in his report around research organisations, RUK and having current research organisations folded into that. We can talk more about that later, but that will also reduce the number of partner organisations and bring about the kind of savings in administration costs. Overall, we projected £350 million of savings by 2020. Sir Paul Nurse himself suggested that just that reorganisation would save somewhere between £35 million to £40 million a year, to give you a sense of how we think the savings can come but also how the number of partner organisations can fall.

Q59 Chair: As I said, we will come on to office location and closures, with particular regard to Sheffield, in a moment. I just want to mention how much I agree with your phrase of boosting productivity. If you distil the Department's objective in a nutshell, it is boosting productivity. We want the Committee to help you achieve that. Part of that is being able to spend for the long term and prioritising capital spend. Under the coalition Government, BIS's capital DEL rose by about 84%. Under this Spending Review, it will fall by about 60%. The Spending Review states quite explicitly that the Government has chosen to prioritise day-to-day spending on national security and key public services, while investing more for the long term in capital infrastructure. Government's capital investment

over the lifetime of this parliament has increased by £12 billion, but yours is being cut by 60%. The Ministry of Defence has increased. CLG's capital, because of housing, has doubled, and it is a comparable Department when it comes to size. Transport has doubled to something like £12 billion. Why were you not able to get a decent settlement in order to get capital spend to boost productivity?

Sajid Javid: The settlement that we have is the right settlement. You mentioned productivity; it is absolutely right to focus on that. The first thing I would say is that when it comes to boosting productivity, one of the things of my Department—and it will be a hallmark of this Government—is the recognition that the productivity challenge is not just a responsibility for my Department or the Treasury; it is a responsibility for the whole of Government. If you accept that, you would accept that when you look at capital expenditure, it is probably better to look at it across Government, rather than just my Department. You mentioned the Department for Transport, for example; their budget is more than doubling over this parliament, whether it is roads or rail, with huge investment programmes, many of them already begun. This is what is going to change productivity in our country.

Recently, just a couple of weeks ago, I went to see the Crossrail project and some of the work being done. It is the largest infrastructure project in Europe. It is these kinds of things that will change the productivity landscape in Britain, certainly when it comes to infrastructure investment and capital investment. It is probably not wholly accurate to look at the capital budget in my Department and say somehow that has a huge impact in and of itself on productivity.

When it does come to my Department's budget, what we were able to do was to protect the priority areas. Look at the investment that we have had, over a number of years, in the catapult centres. Currently, today, there are nine catapult centres. We have already announced two new ones, in Alderley Park in medicines and recently in Wales the Chancellor announced the new one in advanced semi-conductors, so there is investment going on there.

Lastly, I would highlight science capital expenditure. We are committed, by 2021, to £6.9 billion of investment in science infrastructure, which is the largest capital investment by Government in that area in any five-year period. That in itself can be transformative.

Q60 Chair: There is £1.1 billion of capital spend on science a year, rising to about £1.2 billion by the end of the parliament. We welcome that it is safeguarded. Did you push for more capital spend on science, as part of the Spending Review negotiations?

Sajid Javid: It is fair to say that probably you would find any Secretary of State would say during a Spending Review that it would be welcome to see more, whether it is in capital or our DEL, but my colleagues, as well as myself, recognise that we have to make a contribution to savings. Capital is part of that. I go back to where I started on this: the settlement we have ended up with at BIS for capital is the right spot.

Q61 Chair: There will be £1.2 billion spent on capital in science by the end of the parliament. You have committed to spending £1 billion over 10 years for the aerospace and automotive sectors. That is welcome; that is about £100 million a year. Given the capital DEL by the end of this parliament will be £1.6 billion, there is not much else to spend, is there, in respect of capital? Where else will the priorities be?

Sajid Javid: I have set out our priorities in terms of whether it is science or the innovation spend, and there will also be some smaller pots of capital spend as well. These are our priority areas. Another area, when we talk about capital and productivity, that it is also fair to mention is the investment that will take place in skills. If we look at the apprenticeships—and we may move on to that—obviously that is not capital in the traditional sense, at least in the way the numbers are typically booked, but that is also an investment that is going to take place because of the policies of this Department and Government. We should look at that and see the difference that will make to productivity too.

Q62 Paul Blomfield: Mr Donnelly, looking at the questions that the Chair suggested we would, and following on from the Secretary of State's comments about the Sheffield closure, last Tuesday a member of your BIS board visited staff in Sheffield and said that the decision was based on the vision for the Department, that it was not a decision that would save money and that there had been no cost-benefit analysis. That clearly conflicts with the point the Secretary of State has just made to us. Who is right?

Martin Donnelly: As I think you know, Mr Blomfield, I went up to Sheffield personally a couple of weeks ago, and this was one of the most difficult things I have ever had to do professionally. I absolutely share the sentiments the Secretary of State has stated. We have professional hard-working teams in Sheffield and this is very difficult news. We will do everything we can to support those people.

Just stepping back, what we have done is very consciously together, as a Board, working with Ministers, set out a model that we believe works for the whole Department over the next five years, which is a great simplification in how we do things; it is leaving space to get more digital; and it is focusing our expertise in specific areas, and one of those has to be our headquarters and policy function. We came very clearly to the conclusion that within that strategic vision it did make sense to have all of the people doing our core policy headquarters work in once place, close to Ministers. That is better for our delivery. That is no criticism of how well people have been working in a model 150 miles apart. People have worked really hard to make that work. As we go forward, as we have to become more flexible, as we have to move people around more quickly, it seemed clear to us that the right strategic model was to have all of our central people based close to Ministers here in London, while recognising the vast majority of the BIS group will continue to be working all around the country.

Q63 Paul Blomfield: With respect, that does not answer my question. Does the decision save money for the Department? Is it based upon a business case?

Martin Donnelly: It is based upon a clear, new business model for all of the Department.

Q64 Paul Blomfield: So it does not necessarily save money.

Martin Donnelly: It is part of the plans that will save 30% to 40% of our operating costs going forward.

Q65 Paul Blomfield: You will appreciate that it is difficult for most people to understand how moving 247 jobs from Sheffield to London, with the additional salary costs and office costs, saves money. Presumably this is a decision that your Board considered quite carefully on the basis of a business case?

Martin Donnelly: We did consider it carefully on the basis of how we wanted to move forward the entire organisation looking forward over five years. We did not do disaggregated business cases for each of the 80-odd officers that we now have. Just as over the last five years we reduced our footprint from 180 buildings to 80, this is part of a clear strategy that will deliver savings overall.

Q66 Paul Blomfield: This actual move will not necessarily. I wonder whether you could share with us—and obviously we cannot go into the details as we do not have the time to go into the details—a copy of the papers that went to the Board that demonstrate the savings to the Department?

Martin Donnelly: We have been looking at this over the eight months since the election and we have done various sets of work internally and with support of quantitative and qualitative analysis. It is about savings; it is also about delivering a more efficient, more digital service, and we have to look at all of that in the round. It is not simply about a financial decision, although that is obviously part of the wider process of becoming more efficient and more flexible.

Q67 Paul Blomfield: You have emphasised what a significant and painful decision this was. Presumably it was based on that paper that went to your Board. That is the way you operate, is it not? Could you share that paper with us?

Martin Donnelly: We have had a series of discussions about this.

Q68 Paul Blomfield: Was it based on a paper that went to the Board?

Martin Donnelly: There has been a series of papers and analysis over many months. I do not think I can point you to one specific document that covers specifically the Sheffield issue because we have had to look at this in the context of all of our buildings and all of our work to rationalise a new model based around six or seven centres of excellence.

Q69 Paul Blomfield: Can you then share with us the paper that went to the Board that covers the comprehensive reorganisation and demonstrates the savings to the Department?

Martin Donnelly: What we can certainly share—

Q70 Paul Blomfield: Did the paper go to the Board?

Martin Donnelly: As I say, we have been discussing this very intensively, several times a week, as the Secretary of State has pointed out, for the last six months.

Q71 Paul Blomfield: Presumably those discussions culminated in a decision. That decision must have been based on a proposal.

Martin Donnelly: They culminated in a series of decisions, yes. I do not think there is a single paper that it would be helpful to give you. What I can give you is further detail about the underlying thinking about the whole BIS 2020 process, which is about financial savings, but also about increased efficiency, flexibility and a better use of staff.

Q72 Paul Blomfield: If there was more than one paper, we could probably look at them all, so if you could share those with us it would be helpful. Can you also share the McKinsey report with us?

Martin Donnelly: The McKinsey report was about a set of actions to validate internal calculations, both quantitative and in terms of the strategic vision.

Q73 Paul Blomfield: In that case, it would probably be quite helpful. Would you be able to share it with us?

Martin Donnelly: If I may finish—at a certain point in the process last summer. The process then moved on after that. We absorbed the McKinsey clarifications and to some extent a deepening of the analysis that we have done and we took that into the work that we moved forward.

Q74 Paul Blomfield: So you will share those papers with us.

Martin Donnelly: There is not such a thing as a McKinsey report, but there is McKinsey input into a set of different aspects of the work that we were doing. I will see what further information we can usefully share, because the process is one where we have come to a very clear business conclusion in terms of a sustainable model for the Department delivering over the next five years.

Q75 Paul Blomfield: I appreciate that and we are simply wanting to see a business conclusion so that we have an opportunity to understand your thinking, so the fact that you will provide that to us is very helpful.

Sajid Javid: I think what you have just heard from Martin is useful. Ultimately, the decision around what we share and do not share will be my decision. I have listened to you carefully and I will go away and consider what further information we can provide. I am always conscious that, in any Department, when we make these kinds of decisions, so much of what we do in terms of policy development and also running the Department are sensitive decisions; there will be something we do not want to share with you and put out into the public and share, because it could compromise future decision-making and that would not be in anyone's best interest, but there probably is more information we can provide and I will certainly look at that.

Q76 Paul Blomfield: I am grateful for that, Secretary of State. I wonder if I could perhaps ask you, not just looking at the Sheffield issue, about the underlying question of centralising all policy staff in London. That runs counter to the Smith review back in 2010. That runs counter to the decision that a number of other Departments have made; DfE, for example, in their review a couple of years ago said that they saw the benefits of having people around the entire country inputting into decisions, so they provide a perspective from people who did not live their lives, bring their families up and work in London, because the

rest of the country is quite different. Do you not see the benefits of having decision-makers spread around the country?

Sajid Javid: I absolutely see the benefit of making sure the Department and all that it does with its partner organisations is spread around the country. It will be entirely wrong to just be London-centric in terms of the overall functions of the Department. Even when BIS 2020 is complete, I estimate around 10% of employees paid for by BIS will be in London, so that deals with the issue. 90% will be outside of London, which is something, Mr Blomfield, you will support, judging by your question.

What we will have is what I have referred to before as centres of excellence. I want to have the HQ still in London. It is very practical when you have all the Ministers, Parliament, the Committees and stuff in London, that HQ and the key policy-makers are in London. However, for other functions, such as some of our business-facing support, research functions, innovation, student loans and funding the HE and FE systems, there is no need to have all of this in London; in fact, it would be wrong to have that in London. Even when we move down to a lot fewer locations, you should expect to see about 10% of our total headcount in London and the rest outside of London.

Q77 Paul Blomfield: You made a point about centres of excellence. You will acknowledge that Sheffield was seen as a centre of excellence for its further and higher education policy work and the critical mass of expertise that was there. Your Minister of State for Small Business told the House following the decision that she was confident that many of the staff would take up jobs in London. Last Wednesday, your Director of Higher Education said they would have to reapply for the jobs, and there is no relocation package on the table. All of the staff that I have spoken to have said they are unlikely to move for reasons that most of us would understand. Are you not concerned about the points that Nick Hillman—who was David Willetts' special adviser and highly regarded, I think, on both sides of the House—has made that there will be a massive loss of institutional memory and expertise at a time when you are increasing your higher education staff headcount to meet the challenges of TEF and all the other issues you are facing? Are you worried about that loss of expertise?

Sajid Javid: The first thing to say is that there is excellent expertise in Sheffield, and this decision is not around the quality of expertise at all. To put it in context, in terms of our HE experts or HE policy advisers, it is around two-thirds who are currently living in London or outside of Sheffield, at least. The fact that we do not plan the actual closing of the Sheffield office until about January 2018 gives us a transition period. I totally accept your point that there will be many who, for all the obvious reasons, will not want to relocate, but where it is possible and it makes sense for them and for BIS, that is something we would work on. Given it is two years and given it is one third of our expertise in that area, it is something that we can manage.

Martin Donnelly: I have spoken to several of my Permanent Secretary colleagues who employ staff around the region of South Yorkshire to ensure that we are making vacancies that occur elsewhere in the civil service system available to staff in our Sheffield office.

Q78 Paul Blomfield: My point was are you not concerned, as Permanent Secretary, as Nick Hillman said last week, at the loss of expertise in Higher Education as a result of this decision, at a time when you are expanding your function?

Martin Donnelly: I am concerned and, for the reasons that the Secretary of State has given, I am confident we can manage this process successfully.

Q79 Paul Blomfield: Despite offering voluntary severance from this October?

Martin Donnelly: Yes, because we are in detailed dialogue with different groups of people in Sheffield about the precise timings that will be mutually beneficial.

Q80 Chair: Paul, we will have to move on. Very quickly if I may, and I put this to you, Mr Donnelly, how much did the McKinsey work cost?

Martin Donnelly: We have made public a figure of a total of some £200,000, not including VAT, which is a mixture of quantitative analysis and some qualitative work where McKinsey worked with some of our colleagues in BIS to ensure we were validating the model we were developing and that we were then able to share with Ministers and develop further.

Q81 Chair: I think it might have been you, Secretary of State, that said that the Sheffield office or its functions will cease in January 2018. That is quite a long way down the parliament and, given you want to move from something like 80 locations to seven or eight, this process will need to move fairly quickly and you should be identifying other offices that need to close. Are you able to share any detail with the Committee about what that is going to entail?

Sajid Javid: Not much more detail at this point. I do agree with you that with each office it will always take time and it is sensible to have that transition process. This is a target by 2020 and the £350 million overall number that we refer to is in that last financial year. I am confident it can be done by then, but I do accept your point that in the coming months and the rest of this year, we will have to make the decisions and finish off our work on this, but make a decision and work on the implementation.

Q82 Michelle Thomson: Following on from that, we are bouncing around similar areas here: planning, strategy, headcount, core functions and so on. Given the level of planning that has been undertaken to date, Martin, when do you expect to publish the departmental plan and mid-year review, and what has been the cause of the delay given all this planning?

Martin Donnelly: The departmental plan process is, as you know, a Whitehall-wide operation and therefore there is some work at the centre to co-ordinate everyone's plans so they are all published at the same time. Ours is ready to do so, and so it is just a question of when we are in a position to be able to put them all in the public domain, and I think that will be very soon.

Q83 Michelle Thomson: Given that, can you share any of the key themes from it with us today?

Martin Donnelly: Essentially the plan will set out where we are on meeting the priorities the Secretary of State has set out, both directly and also in terms of our manifesto commitments, which set out a large number.

Sajid Javid: The focus, for all the Departments, will be around, first, the manifesto commitments. My Department is covering a very broad range of policy areas, over some 18 manifesto commitments that are relevant, so you should expect to see a plan that will go through each one of those and detail where we are, where we expect to be and when that policy will be delivered by and by what mechanism.

What I would add to that is that, since the manifesto was developed in the election, we have also published the productivity plan and that has in it a number of commitments, ideas and things, and you should see it as an update of that as well, and how we intend to follow through on those commitments over the rest of this parliament. That will be the major focus on the manifesto commitments and our productivity commitments.

Q84 Michelle Thomson: It would be appreciated if you could keep the Committee updated but, in the light of Lord Maude's announcement, how do you see the interface with UKTI and potentially somebody else coming into replace him? How is that going to be factored into your plans? In other words, could there be a further delay with a shifting set of priorities with a replacement for Lord Maude?

Sajid Javid: There will be no delay at all in this because in situations like that you would expect a delay if there was a resignation—a Minister leaving—that was abrupt and unexpected. That is certainly not the case here. Also you might expect a delay if the Department itself was not joined up. I have been very involved in the work that Lord Maude has been doing as well as some other Ministers who have been helping. We also have the exports task force, which I chair, which is more cross-government, and that has also been leading a lot of work, not just on UKTI but more broadly on other initiatives on exports. Given that, there is no reason whatsoever to think it would cause any kind of delay.

Q85 Michelle Thomson: Given your confidence about the report coming out, both of you, can you commit to a date very soon—to a specific date?

Sajid Javid: It is not in our control. We have submitted the departmental plan and it is almost entirely done from the Department's perspective. Now it is up to the Cabinet Office to decide on the release date. I suspect what the Cabinet Office will do is to release most of the departmental plans on the same day, so that is not something in our control.

Q86 Michelle Thomson: Just to cover off again so that I am completely clear about the McKinsey report—you mentioned £200,000 excluding VAT—are you in a position to share any of that report with us?

Sajid Javid: First of all, we can probably give you some more information or a summary of the report. The really important point is what Martin said earlier; the BIS 2020 work is what we are going to do and how we are going to do it and some of the things that I referred to earlier—that is a product of the Department, the Ministers and the officials working together, and ultimately the decisions are decisions made by the Ministers, and ultimately me. When you make such big decisions—we have talked about

locations, headcount and certain functions—it is absolutely right and sensible to get some external validation. It is quite normal in Government. Previous Governments have done it.

To be able to get that external validation over a three-week period, McKinsey came in, they looked at the work that the Department and the officials had done, and just double-checked to make sure that our numbers and ideas made sense. Was there anything else that we would not know that organisations, other parts of the public sector, or maybe even other countries, could bring to the table that might help us to get better value for taxpayers? It is right to get that external look in. That is exactly what they did. For £200,000 it was a wise expenditure in terms of the overall savings that this will bring for the taxpayer. It was right that it was a validation rather than ideas coming from them. The ideas were almost all ours and what we were looking for from them, as a reputable external organisation, was some validation about some of the assumption we had made, for example, on timeframes and the financial projections and forecasts that we have made.

Michelle Thomson: That is certainly interesting. I am just doing a quick calculation. If it was over a period of three weeks and there were 15 man days, if you like, that is in the order of something like £20,000 a day. It would certainly be worthwhile to see some output from that.

Chair: We are going to move on to a key part of your departmental objectives: apprenticeships.

Q87 Amanda Milling: Thank you, Secretary of State, for joining us this morning. The first thing I wanted to touch on was the 3 million target. Obviously that is a key discussion point on a regular basis, and I was just wondering what the current progress is and the number of apprenticeship starts we have had since the election?

Sajid Javid: Thank you, Ms Milling. So far, so good, as in it is early days in the new parliament. The first thing to update the Committee on is that in the last parliament we had thought there was something like 2.4 million apprenticeships starting. Those numbers have recently been revised to 2.6 million, but the numbers we have so far in this parliament are encouraging. To give you a sense, in the first quarter of 2014-15, there were 148,000 apprenticeship starts. In the first quarter of 2015-16, that is higher by roughly 5,000—153,000. That is an increase, both in the higher apprenticeships and also in the under-19 apprenticeships.

It is very early days. Personally, I do not read too much into that because the target the Government had set for itself, 3 million starts by 2020, is very ambitious, but I am comfortable with what I am seeing that that target can be met.

Q88 Amanda Milling: You are well aware that there is a lot of discussion about the balance between quantity and quality. What practical steps are you taking to ensure that this is not just a numbers game and that we are going to ensure quality apprenticeships that are going to give the workforce and young people real opportunities for career progression?

Sajid Javid: I would highlight three things, and I can expand on any of them if you wish. The first is the apprenticeship levy itself. For the first time, we have a long-term, sustainable way to fund quality apprenticeships. You are all aware of the terms of the levy; I can expand on that later. By 2020 we will take in about £3 billion a year in funding from

the levy, which is money that will be used by those companies to fund those apprenticeships. It just reassures everyone involved in this that the money will be there to invest in quality, not just quantity, and not something that in any future Spending Review might be cut; there is always a concern in the Department that that might be cut or there might be rationalisation. Longer-term decisions can be made, and that will help quality.

The second is in the Enterprise Bill that we have in front of Parliament right now. We will be protecting the term, “apprenticeship”. That helps, in the same way, for example, we protect the term, “degree”; that helps to protect quality and, ultimately, to raise status.

The third thing I would highlight is the new Institute of Apprenticeships. Again, this is something that is in the Enterprise Bill. It will be employer-led. It will be a new independent body that will set the standards for each class and type of apprentice, but having such a body that is independent and employer-led, and is something there that is seen as a permanent structure that will be involved in the long term, will also help to raise quality.

Q89 Amanda Milling: Can I pick up on the levy in particular? There are going to be fewer than 2% of employers who will be paying the levy. I am interested to know what percentage of the levy is going to go back to small businesses?

Sajid Javid: I could not give you hard numbers at this point, but you are right. Our estimate is that it will be 2% of firms overall that pay it—the very large firms with payrolls of £3 million or above. It will mean that of the total amount raised—say £3 billion by 2020, which is the estimate—a significant proportion will be used by smaller firms that will not have paid directly into the levy. What that proportion is I could not tell you, but it is reasonable to assume that it would be a significant proportion of that.

Q90 Amanda Milling: Do we have any idea of when we are going to know what proportion will be going back into small businesses?

Sajid Javid: Yes. Right now we are working on the details of the levy and how the whole system will work. It will be digital accounts. We want to make it as simple as possible for both the firms that are paying and those firms who can use it that have not paid directly into it. That is an ongoing process now with a number of stakeholders, including representatives of smaller companies. I expect that by the summer we will have a better idea but it will take a further few months to properly develop that. I want to make sure we do not rush it and just make announcements on this, because it is very important we get it right. It is a big change in how we fund apprentices, and I want to make sure that when it is all properly launched it works as it is intended.

Q91 Amanda Milling: In terms of those large employers who will be paying the levy, there is an argument that I have heard that that will be a burden and will put some of their recruitment and training at risk, given the amount they will be spending on the levy. I am wondering what your views are in terms of ensuring that this does not cause these companies difficulties in terms of their current investment in their workforce?

Sajid Javid: This goes back to one of our key reasons for introducing this. That is the one I mentioned earlier about having long-term sustainable funding, but also when you

look at British firms generally, and compare British firms investing in training for their employees to their European counterparts, on average it is about half they spend per head. That has been a long-running British problem. I could not tell you exactly why that has been an issue. However, in successive Governments, when you look at those numbers, British companies just have not invested as much as their European counterparts or, for that matter, the leading Asian economies, in training their employees.

I felt we had to do something quite dramatic. It is a dramatic intervention that will really move the dial on this, and this does that. It is not surprising that there will be some companies, of course, when they look at the levy—whatever the levy is, just to use the word “levy”, they do not care too much what it is—they would rather not have the levy. At the heart of this is what the levy is for and the difference it will make, not just in the skills it will bring to people, particularly young people, as they take on those apprenticeships but ultimately for the companies themselves because often these are the same companies who say, “There are skill shortages in this area or that area”. This kind of investment is what is required. Ultimately, the benefit will accrue to the companies and that is why I think the principle that the people or organisations that benefit most make a contribution to this is the right one.

Q92 Amanda Milling: Just one other question: for companies this is payable across the UK, and in response to our questions you talk about working closely with the devolved administrations. I would like you to elaborate a little bit more in terms of where those discussions are up to.

Sajid Javid: We are talking to all the devolved administrations on the levy. To give you a sense of the money involved for the devolved administrations, roughly of the £3 billion by 2020, around £500 million will be for the devolved administrations. Because this is a devolved area, it is up to those devolved administrations how they use that money. They could choose, for example, to use it for something totally different to skills. There is nothing I can do about that. That is the principle of the devolution of skills. What we hope that they will do is to see it for what it is; it is an investment in skills. It is taken from those companies on the understanding that it will be invested in skills. So far, in our discussions with the devolved authorities, all of them are on that basis and we are working on how we can help them to use it in that way. We are very open-minded about the structure we will create with HMRC around the digital accounts, which will make it as easy as possible for firms. We would be happy to share that with any of the devolved administrations, but ultimately it is going to be a decision for them. I hope they will invest it in skills and nothing else.

Q93 Peter Kyle: Thank you, Secretary of State and Mr Donnelly. It is great to have you here again. Just to follow on from Amanda’s questioning about apprenticeships, one of the great and exciting things about having a target of 3 million is that it seems to be that apprenticeships are being used in ways that they never have in the past. We know that people over the age of 24 are now the majority of people taking apprenticeships. We know it is there for lifelong learning. It is there for training and for internal purposes within companies. We know that it is also a key tool in tackling youth employment and the pathway from education to career. Can I ask you your view on the relationships between apprenticeships and

productivity? Is it your belief that having 3 million people with apprenticeships in this parliament will add to the productivity challenge that we have as a nation, Secretary of State?

Sajid Javid: It will not add to the challenge; it will help us deal with the challenge.

Q94 Peter Kyle: It will help deal with the challenge. How?

Sajid Javid: When it comes to looking at reasons why we have low productivity and speaking to the companies, and all the research in this area, one of the areas—although it is by no means the only one—is an underinvestment in skills. A lot of companies when they tell you why they recruit abroad, for example, particularly the EU because it is easier visa-wise, they will say there is a lack of skills, whether it is engineers, technicians or others. Part of the answer is to make sure that we have those skills at homes. Apprenticeships are not the only answer. Obviously there are other sets of skills and other ways of doing that.

Q95 Peter Kyle: Let us keep it on apprenticeships then. The key to this is that the apprenticeship programme is about upskilling the workforce plus young people. Is that correct?

Sajid Javid: Upskilling is a key part of it. It is making sure that we have the skills, broadly put, in Britain that British companies need to grow.

Q96 Peter Kyle: Do you know, as a Department, that the people who are taking apprenticeships are finishing with higher skills than they started with?

Sajid Javid: That is a reasonable assumption to make. The vast majority of apprentices, when they complete their training, stay on with that firm.

Q97 Peter Kyle: You say it is a reasonable assumption, but I have been asking your Department a series of questions about whether you are monitoring the skills that people go into apprenticeships with and you do not monitor. You keep no records for the skills base that people go into apprenticeships for. Do you not think that would be a sensible way of establishing whether people are actually gaining skills through taking on apprenticeships?

Sajid Javid: The first thing to say is that it is a good point. It is worth thinking about. Is it really adding value to spend time and resources in monitoring that? Would it not be better or easier, if you wanted to look at the result of an apprenticeship, to look at what happens when someone starts an apprenticeship, they complete their apprenticeship over two or three years—remember these are real jobs alongside training, so it is not just the training—and that at the end of that period, is that individual finding gainful employment? If the vast majority are staying in employment, that is a very good sign that their skills are valuable to that firm.

Q98 Peter Kyle: Exactly, but it is only a good sign, clearly, if there is good skills growth in that process. You will be pleased to know that I did my homework before you came to give evidence to us today. You will be pleased to know, also, that I have been reading the research papers that have come out of your Department. Can I refer you to research paper 199?

Sajid Javid: I have not memorised it.

Peter Kyle: I am the reader and you will be pleased to know that there is a reader of these papers in our Department. However, when you look at page 20 and you see the chart that is there, it very clearly shows that 48% of people doing Level 2 apprenticeships already have a higher level qualification than the Level 2 apprenticeship that they are starting. This is a piece of research coming out of your Department. You do not keep the numbers for it, but this is a sample of 3,000, so I will grant you that. If I saw that statistic, if I was Secretary of State, I would start taking numbers, because if half of the people starting an apprenticeship already have a higher level of qualification than they could ever conceivably get on that apprenticeship, I would start to worry about the ability of that apprenticeship programme to tackle the productivity challenge we have as a country.

Sajid Javid: One of the reasons for those, given what you articulated, is that we have a new Institute of Apprenticeships. It is employer-led and it is important that it has to be independent, which it is. It has to be employer-led. It has to be properly funded. It will be funded by BIS. It will not be funded through the levy. It will set standards, and I would absolutely expect it—it is early days; the new institute is being set up and we obviously still have to get the legislation through—to look at what the best ways are to measure outcomes.

Q99 Peter Kyle: Let us just lay the cards on the table: if half of the people doing apprenticeships are not coming out at a higher level qualification and if you are looking for value for money and to use the skills challenge to tackle productivity, surely you would want to see the vast majority of people doing apprenticeships come out with a higher level qualification that they went in with?

Sajid Javid: Of course, and I talked about the institute and the levy itself, where you will now have a situation for a huge number of companies where they will essentially pay the whole cost of the apprenticeship as opposed to having some of the cost. It will absolutely concentrate the minds of those companies and make them think again about the value of the training they are providing that individual. Let us remember that until 2010, we were not seeing big apprenticeship growth in this country; it was rather neglected as a route to skills. That changed in 2010. That is why we have seen this record increase in numbers in the last parliament. However, there is still work to be done. The process is evolving and part of that is making sure—rightly, because you talk about the productivity challenge—that the skills are the right skills and they are actually adding value. The kinds of changes that are coming about now, such as the levy itself, so there is more of a stake for the company itself directly in a cost—

Q100 Peter Kyle: I understand all of that. Believe me; we have spoken in the past and I support the target, but we want to make sure that we are getting value for money, and I know that you do to. On page 22 of the same report—I did really do my homework on this—it quite clearly states that only 9% of people doing apprenticeships are doing a Level 2 apprenticeship qualification for the first time. 9% are doing a Level 2 qualification for the first time. 91% of the people who are doing it have already a Level 2 qualification. Surely this is the point about needing to encourage more people to be doing higher level apprenticeships. If we have 3 million people who are doing qualifications who are already beneath their level of attainment, that is not going to tackle the productivity gap that we have.

Let me put it this way to you, because it is the last question: you could never go back to school and do an A Level again that is funded by the state. You could never, once you have a Level 2 apprenticeship, go and do another one a second time. Why are we allowing people to start a Level 2 qualification and over 90% of them already have that attainment in their skills attainment in previous studies? Surely we should be having more ambition for the people who are doing these apprenticeships. If 98% of them already have their qualifications, we need to really think about how we encourage people to do much higher level qualifications, perhaps set a target and perhaps start monitoring the skills attainment of people who are already going in to do qualifications and apprenticeships for the first time.

Sajid Javid: Yes, we absolutely should be as ambitious as possible. The changes that are coming about now—the levy, the institute and protecting the term—are exactly the kind of changes in behaviour that it will drive. Again, this has been an evolving process. As a country we have not got apprenticeships right for a long, long time. That is changing now because of the priority that the Government has given to it. If you look at countries who I think have been more successful in their approach to apprenticeships, whether it is Germany, Austria or Switzerland and these countries, it is just the kinds of changes that we are bringing and we have already brought about, and the ones that we are instituting in this Parliament that will bring—

Peter Kyle: We are only going to get it right if you come out with more skills.

Q101 Amanda Solloway: I would like to make a point of clarification, because I have not seen the data, as some of you have, but I am wondering about the higher qualification. I wonder whether or not you can have a higher qualification but not necessarily a skill. My question is: if that higher qualification were, for example, a degree, would you therefore still have an apprenticeship, which would start you at a lower qualification in order to get the skill within that environment? I wanted a bit of clarification about that.

Sajid Javid: You are correct about higher level qualifications and that is why I talked earlier, for example, about the numbers of apprenticeships and compared the first quarter of 2015-16 to the previous quarter. There was a 50% increase in the number of starts in higher apprenticeships. One of the areas we focus on is what I refer to as degree apprenticeships. More and more universities are involved, but I would like to see a lot more of the Russell Group universities involved and that is one reason, for example, just recently—a few weeks ago—I chaired a roundtable with all of the Russell Group universities. Some of them are committed and that is what they are doing; with others I want to see more commitment. What we have made clear to them is that we would like to see all universities offer degree apprenticeships and therefore raise the overall quality of what is available.

Q102 Jonathan Reynolds: Good morning, gentlemen. We have talked, quite rightly, a lot about productivity so far today, and the well-known productivity problem that there is in the UK. We would all recognise that proper adult skills provision is vital in addressing that. The skills budget was cut by about a third in the last five years and this Spending Review will take out a further £360 million by 2019-20. Secretary of State, do you have any concerns about the impact that might have?

Sajid Javid: In terms of the overall Spending Review we have ended up on a very good place in adult skills. It links in directly with some of the discussions we have been having this morning about apprenticeships. As you know the adult skills budget was frozen in cash terms but in real terms it was a decrease of around £360 million by 2020, so it is significant. If that was the only thing that happened, I would be sitting here concerned. At the same time, the investment through apprenticeships, through the levy and, ultimately, going through some of our excellent FE institutions, if you take it as a whole, total funding going through FE, the officials estimate in the Department it will increase by 13% in real terms by 2020. I am not suggesting for a second that it is not a challenging issue for many FE colleges around adult skills, but the overall funding envelope that is available, including apprenticeship monies, provides the resources that are needed by the FE sector to provide a world class service.

Q103 Jonathan Reynolds: Do you envisage that any FE colleges may face financial problems and perhaps have to close or merge as a result of this settlement?

Sajid Javid: I would not say as a result. Even without this settlement, even if all things had stayed constant and real-term budgets had stayed the same, there are many FE colleges up and down the country that are having trouble. In some areas there is evidence of oversupply. In other areas there is maybe a college that is not focused on the right offering. That is why we have the local area reviews. They are ongoing and, as they suggest, it is very focused on the needs of that particular area. That is part of the process of making sure that the total funds available—and, like I said, there was a real increase in terms of total funds—are spent properly and efficiently. If that means, in that process, that in some local areas some institutions need to merge or close, but it leads overall to a better offering to local people, that is the way it should be.

Q104 Jonathan Reynolds: You see the local area reviews as being led chiefly by quality, rather than making financial savings?

Sajid Javid: Yes.

Q105 Jonathan Reynolds: There is a local area review going on in Greater Manchester; I am quite cautious of what that will involve. I looked at the Hansard for the last BIS questions and I saw there were questions about a college in your constituency, Secretary of State, so there is genuine concern there. There are principals saying they do not feel they are in a strong financial position and they are risking insolvency. There was a quote given in BIS questions. Are those fears misplaced or are they not looking at the detail of the settlement?

Sajid Javid: There will no doubt be some FE colleges in the country that are looking at their books and thinking, “What do we need to do to make sure we can become more sustainable?” However, as I said, that is not a result of the settlement. Overall funding in the sector is going up, but that does not mean it is going up by the same amount for each institution. There will be some that, if they do not have the right offering or they do not work, for example, with local companies—these companies will now control a huge amount in terms of apprentice funding and offer the kind of apprenticeships that they want—there will be consequences for that. At the end of all this, the funding settlement alongside the local area review, alongside my view, which is to protect, even where there

are cuts, participation so the focus is more on admin, merging and saving back office costs, taken together, mean that the offering from FE colleges across the country will only get stronger.

Q106 Jonathan Reynolds: Should we expect changes in the FE sector? Should we expect institutions to perhaps merge or change?

Sajid Javid: There will be some, not least because of the local area reviews.

Q107 Chair: In last year's annual report, the Department identified a key risk as financial instability in some areas of the FE sector. Has that risk increased or reduced as a result of the Spending Review settlement?

Sajid Javid: I would say that risk still exists. It is hard to say whether it is up or down. Given the overall settlement and my reference earlier to the funding resources in the sector as a whole increasing, I think it would not be unreasonable to take the view that it is less of a risk today than it was before the settlement.

Q108 Chair: And you think the mitigating factors that you have put in place since being appointed to become Secretary of State for Business have addressed the risk as well.

Sajid Javid: It has helped, but I am not suggesting that those risks do not exist for certain colleges. I could not tell you which ones they are. As I have just discussed with Mr Reynolds, there will be colleges in the country who may have to merge with others, may have to change their offering and may have to work much more closely with local employers given the introduction of the apprenticeship levy. Overall, in the system there are more resources and that will lead to a stronger FE sector.

Q109 Chair: Would you be content with FE colleges going bust?

Sajid Javid: We should look at making sure that we have a proper framework in place so that when colleges cannot make their books balance there should be a proper insolvency in place, and that is something I am looking at.

Q110 Richard Fuller: Often, Secretary of State, the biggest risk is not how much money you spend; it is the absence of creative thinking and new ideas to do things more efficiently, so I welcome very much the initiatives you are taking both in FE colleges and elsewhere. I am perhaps one of those who wished, in the overall expenditure, the reduction achieved may have gone further than the 17% and perhaps have looked for additional reductions to assist the efforts of the Chancellor to get the Government's budget back into surplus. Were you given the latitude by the Chancellor to go deeper, if you had thought at the time that it was the right thing to do?

Sajid Javid: Yes. The way that it works with the Treasury—and this for me was the first time I went through a Spending Review as Secretary of State so I was learning in the process—is there was a lot of latitude; you come up with what your Department can achieve and what is the most sensible outcome.

Q111 Richard Fuller: Given the recent comments this week from the IFS and others about the overall global situation and some of the impact that may have on the forecast of the Government expenditures, what would you say to the Committee, if the requirement comes for further reduction, about your ability to continue with your overall goals but to achieve further reductions in your budget expenditures?

Sajid Javid: There is no such requirement. What I am comfortable with is that the Treasury has done an excellent job in meeting one of its key objectives, which is making sure the books balance by the end of this parliament. Clearly that has meant difficult decisions for certain Departments, including my own, but I am entirely comfortable that the Treasury can meet its targets. My Department will make its contribution as set out in the SR.

Q112 Richard Fuller: If, heaven forbid, some of those predictions do come to pass, you are confident, in the work you have already undertaken, that you would be able to identify further reduction should you be needed to?

Sajid Javid: I am not looking for further reductions.

Q113 Richard Fuller: We often hear in other sessions about the desire to lever in private money by the Government, putting some seed capital in to research and development. We have talked a little bit about that. Has the Department looked at the structures for the ways in which it does seek to address and attract private monies and some of your previous background in the finance industry about better and more effective ways to do that and for us, as taxpayers, to see the particular initiatives in particular types of science—automotive area—and how effective the initiatives in the Department are to attract outside capital and measuring returns, a bit like an LP/GP relationship between the taxpayer and each of those initiatives?

Sajid Javid: First of all, it is absolutely right that officials in the UK and other bodies within BIS always think a bit outside the box. They try to be a bit creative about what is the best way to make use of the taxpayers' money that they have. It is one of the reasons why I was comfortable with the changes that we have made in the Spending Review with Innovate UK and its funding, so that by 2020 roughly about a third—I think there will be about £165 million worth—of its funding it will have to provide in non-grant forms. That can take many forms: loans and other ways to work with companies. I have encouraged them to be as creative as possible and to look at what other countries have done, such as Finland, France, the US and others. The kinds of suggestions that you have are exactly the kind of things I want them to look at.

Q114 Chris White: Good morning, Secretary of State. UK employment, as you know, has reached a record of 74% in the three months up to November last year, but there is still a big concern regarding a skills gap. A number of this Committee sits on the Sub-Committee on Education, Skills and the Economy. On Monday, we discussed careers advice and guidance. Careers advice is one of the ways that we could reduce this potential gap. According to witnesses, there are at least three Departments involved in delivering careers advice. Do you think there is any way we could better help our young people identify careers advice, not least NEETs, who would find this advice useful?

Sajid Javid: We should always keep something as important as that under review. I think I am right in saying that in the last parliament this whole issue of careers advice and what is the best way to provide it was looked at. As you rightly say, a number of Departments are involved and the two key ones are DfE and BIS. In BIS we have the National Careers Service. I have no reason to think, at this point, that that is something that requires a radical change or even a significant review. However, it is important, in light of some of the other changes we are making, which we have talked about—the apprenticeship levy and the engagement that we will encourage between the companies and the skills providers—that we keep it under review and see if there is more that needs to be done.

Q115 Chris White: Do you think it is something that you will be looking at in the near future? It did come across very clearly that the advice that colleges and schools were receiving around the country was quite patchy.

Sajid Javid: It is hugely important that we have the best advice that is available and we provide it in a platform that works and resonates with the young people who we provide that advice to. You mentioned NEETs, for example; clearly skills and careers advice is a big part of the answer in dealing with that challenge, but also there are the changes in the welfare system. The Secretary of State there is making the introduction of universal credit. The evidence shows so far it has been a huge success in encouraging people into work. It does require joined-up thinking between the Departments. My experience so far is that the Departments are working well together. As you know, in my own Department the Minister for Skills is also a Minister in DfE, and that provides us with a certain level of joined-up thinking. I work very closely with DWP as a Department on issues like this, but it is right—and I think this is what you are suggesting—to constantly keep that under review and make sure we are doing the very best that we can.

Q116 Chris White: Your Department is drawing spending from the Commission for Employment and Skills. This is a vital source of information on the labour market. What is going to take its place?

Sajid Javid: One of the organisations that will contribute more—I would not describe it as a replacement—is the new Institute of Apprenticeships, which will make a big difference. I mentioned briefly earlier that it will be independent. It will be business-led. Because its job will be to design the standards of apprenticeships in each class—both higher and others—for certain industries, it will be in organisation, a bit like the UKCES, and will be involved in working with both industry and the FE colleges, universities and others to make sure the skills and standards that are coming out through the investment in skills are the right ones.

Q117 Chris White: Can I ask one final question? It is a bit broad but would you mind letting the Committee know, in terms of manufacturing, what is your personal level of interest? How high is it up the Department's agenda?

Sajid Javid: It is hugely significant, not least because before 2010, in the 10 or 12 years before that, we saw a significant decline in manufacturing. It fell from something like 18% of our GVA to something like 10%, so a massive collapse in our manufacturing base. We saw a huge collapse in unemployment; over a million jobs were lost in

manufacturing. It was neglected. It was neglected for a number of years. That has changed. Since 2010, we have seen an increase in manufacturing as a percentage of the economy. We have seen an increase in exports and manufacturing. We have seen an increase in employment. That makes it clear that it was a priority for the Government from 2010 and it is a priority for this Government. A couple of examples I would give: first of all is generally our support for business, whether it is cutting corporation tax, which helps all companies including manufacturers. Specifically, on manufacturing, some of our other initiatives have been around certain areas that we are very good at but we cannot be complacent, and we have to keep working with the industry and help invest, particularly in new technology. That is why, in the Spending Review, we managed to extend the period of the grants that we worked with the auto industry and the aerospace industry and the amount of money that the Government will put in, which we are match funding, but working on innovation and new technology. For the aerospace industry, we have allocated an additional £600 million. For the auto industry, we allocated another £275 million. In the context of an overall falling pot of funding for the Department, it helps to show where are priorities are in terms of manufacturing.

Q118 Chris White: I have just one more question. What you have said shows that the Government have recognised the significant contribution that manufacturing can make to balancing the economy, but recognition and symbols or signals are slightly different things. You mentioned the automotive sector and the aerospace sector, but in more general terms, how for these creative industries and the massive contribution these can make to exports, how far have the makers marched, to coin the phrase?

Sajid Javid: I have shown you two concrete examples there, but so much of the Department is focused on skills and apprenticeships, which we have spent a significant amount of time talking about today. That goes very much to the heart of manufacturing, as well as making sure we have a properly funded system. There is our exports focus, and it may be we will later on come to UKTI. The kind of areas that we wanted to spend more on and put more resources into reflects the importance that we attach to manufacturing as well.

I will pick one more point that points to that. We talked earlier about research and the research councils and Research UK. One of the plans that we have alongside that is to also put Innovate UK in the new Research UK body. One of the reasons I want to see that is because it will encourage more collaboration between the research councils and the commercial sectors, to consider what more can be done with that research that has been funded by the taxpayer to the tune of billions. Are we really going as far as we can to commercialise that so that it can lead to cutting-edge manufacturing? I very much believe that we are in the midst of a fourth industrial revolution and that Britain is at the heart of it. That does require much more collaboration between science, with data, digital and manufacturing. Much of what the Department is doing is designed so that Britain will be a leader in that revolution.

Q119 Chair: Secretary of State, you mentioned—quite rightly in my view—the importance of our aerospace and automotive industries; that is picking winners, is it not? Is that not an industrial strategy?

Sajid Javid: I work with all industrial sectors in the economy and that is why we have these sector councils. I have attended many of the meetings. For those two particular sectors, as with the previous Government, and it is continuing now, we are very good in both sectors already but we cannot just assume that is always going to be the case. They are very internationally mobile. In aerospace, we are number two only to the United States and number one in Europe. It is a sector that in many ways, people agree, is quite mobile in terms of there being many countries out there that would love to have what we have in aerospace and they will go a long way in terms of trying to provide support, whether it is through grants, through innovation or other ways to work with those companies. The Government do always need to constantly keep an eye on that and do their very best to send an important signal to those sectors that we will work with you and, where you have good ideas for investment that will lead to jobs and growth, we will work with you.

Q120 Chair: Why those explicit sectors and not others, such as pharma and life sciences, where capital is also global? You have very good strengths with regards to that. Why is life sciences not classed as a third important sector alongside aerospace and automotive?

Sajid Javid: There is no suggestion that life sciences is not an important sector. We have the Office for Life Sciences. I have a Minister in my Department who is focused on life sciences—a joint Minister with the Health Department. It is a major focus of our export strategy. It is a reflection that the funding in those particular sectors is a function of different sectors requiring support in different ways. The life sciences sector is not approaching me and saying, “Look, the best way you can help me, Minister, is by giving us lots of money to invest in this research or that”. There are other ways we help and that includes indirect financial support, like our tax credit system—our patent box system that we have. Tax credits last year provided something like £1.4 billion of research help from the taxpayer indirectly to firms, and much of that was in the science sector. So there are ways that the Government is helping other industries; I would not just assume that these are the only two that matter. That is far from the truth.

Q121 Paul Blomfield: I am interested to explore the impact of the moving feast that is the RAB charge on BIS budgets. Our understanding at the moment is that you have not reached a settlement with the Treasury on that issue. How can you therefore make financial plans with any certainty?

Sajid Javid: How can I therefore...?

Q122 Paul Blomfield: If you do not know what the impact of the RAB charge is going to be on your departmental budgets, what impact is that having on your financial planning?

Sajid Javid: What I do know with the RAB charge is that the change in the Treasury’s discount rate to RPI plus 0.7 has had a knock-on impact on many Departments; it has reduced the RAB charge to 30% or thereabouts. I am able to take that into account in my calculations. In terms of the overall impact, looking across this parliament, I have whatever financial information I need to properly plan.

Martin Donnelly: If I could add on that, in technical accounting terms, as I think you know, we are talking about adjustments to non-cash annually managed expenditure, which does not feed over into our cash DEL or AME expenditure. How we handle these in relation to the RAB charge is important for our accounts but it does not affect our actual spending, and we make adjustments through the supplementary estimates.

Q123 Paul Blomfield: That is a helpful clarification. Obviously, you have told us that it is not yet possible to say what proportion of the Department's resource DEL will be represented by the RAB charge; it is in the process of being agreed in time for the main estimate. Where have you got to in that discussion with the Treasury?

Sajid Javid: We are very close to the main estimate, but it has not been published yet.

Q124 Paul Blomfield: Do you think in principle the costs should be borne by the Treasury or by BIS?

Sajid Javid: For my Department, we are responsible for HE and the funding of that. The sensible starting point should be that the Department responsible should be the one that should bear the costs.

Q125 Paul Blomfield: Obviously the RAB charge can be affected by changes in terms of loans and you have already retrospectively frozen the repayment threshold, which has caused some concern. In managing the RAB charge going forward, are you giving any consideration to further changes, either retrospectively or in relation to new loans for interest rates or the threshold for repayments?

Sajid Javid: No, we are not, not at this point.

Q126 Paul Blomfield: So you can rule that out for this parliament?

Sajid Javid: I am not currently giving consideration to that. I could not tell you I am ruling it out, but it is not part of the planning at the moment.

Q127 Chair: On a similar thing, Secretary of State, can I move to the biggest item in your balance sheet in terms of assets, which is the student loan book? What is the current status in terms of selling that off?

Sajid Javid: There is a team of officials working on it, as well as some external advice. I am just trying to recall what the original target was for sale but we will not be meeting that target date. Martin, do you remember what the original time of it was?

Martin Donnelly: We had originally wondered whether we could make the first sale in the current financial year up to the end of March. It has become clear that that is not the case because it is taking us a little longer to go through the technical and due diligence and value for money work. That does not change the office for management of budgets' assumption over how much we can take in over the period of the Spending Review. It merely shifts a little bit the timing of the sales.

Q128 Chair: What is the planned timetable now in terms of selling off the student loan book?

Martin Donnelly: As the Secretary of State said, we are doing a lot of detailed work and it is subject to that work. We do have an objective of aiming to be ready for later in this financial year for the first part of sale, assuming that we meet all of the necessary criteria—value for money and the various work that the shareholder executive is currently doing with the investment market.

Sajid Javid: The financial year 2016-17 is still our target for the first sale.

Q129 Chair: Thank you; that is helpful. In terms of the manner of the deal, is it right to say that proceeds from the sale will be returned to the Exchequer but the BIS accounts will report any difference between the carrying value of the loans and the value of the receipts?

Sajid Javid: That is correct. That is usual. As I understand it, that is usual for any asset sale.

Q130 Chair: That is going to be a loss, is it not? You will carry a loss.

Sajid Javid: I do not think we know that yet. I do not think we have that information.

Martin Donnelly: We do not know that for certain. It is likely there will be some difference between book value and sale value, as one would expect in this sort of transaction. As you know, the accounting positions are quite complex because the treatment—

Q131 Chair: Try me on them; go on.

Martin Donnelly: I will probably run out of expertise, but the treatment in national accounts, where this reduces overall national debt levels, is different from the treatment of our accounts, where we will have to make the sort of adjustment that you mentioned, which the Secretary of State said will depend on the sale itself.

Q132 Amanda Solloway: First of all, you have mentioned launching a pilot this year to test financial products in R&D. Can you enlighten us on what those products might be?

Sajid Javid: Not much, at this point. What we have started to do was first look at what some other countries do and also talk to some of the larger employer organisations and some of the firms that have interest in products. The reason we decided on a pilot is because we think it is sensible to, as we approach 2020 and eventually a third of funding in Innovate UK takes that form, that we test a few products out soon. I would like to test that out in the financial year 2016-17 and then maybe a bit more in the following year. I could not shed too much light on that now. I would not want to prejudge it because I want to be led by the evidence.

Q133 Amanda Solloway: If I could move on to looking at grants moving to loans in the R&D sector, one of the things the Minister for Small Business mentioned was that small

businesses were actively encouraging this change. Is there any evidence you have that indicates that small businesses welcome loans as opposed to grants?

Sajid Javid: I certainly have come across and talked to firms and representatives of firms who are perfectly relaxed about the change. They totally understand it and they are very keen to understand what they could do and what they have to do for the newer type of products that will be available. It is probably fair to say with any firm if you said, “Do you want the choice of a grant or something you might have to pay back?” obviously the decision, from the firm’s perspective, is going to be obvious. However, that does not mean that these are not products that can both help the firm but also lead to the better return possible for the taxpayer. We do sometimes have to step back and think that the amount of support the Government provides some companies in some sectors must be kept under review to see what the best way is that the taxpayer can help. Let us say we give some support to a company with a non-grant product and it means that if that investment the company makes is successful, they have to pay back even more than they originally took from the taxpayer; it is reasonable for the taxpayer to share in the success. The taxpayer is taking the risk so it is not unreasonable that we find ways, in some cases, where the taxpayer can also share in the upside.

Q134 Amanda Solloway: It is your belief that it will increase productivity then—having loans as opposed to grants.

Sajid Javid: I would not go as far as saying that the motivation for the change from grants to loans in innovation was productivity. I would not say that was the primary motivation. I have to step back and I have to find savings in my Department. I have to contribute to the deficit reduction. What is the most sensible way to do that? When I looked at the total spending on innovation, I thought it was reasonable to say, “Look, can a chunk of that spending be spent in a different way, which will not necessarily harm innovation; it will still help those firms but it will be a better return for the taxpayer”.

Q135 Amanda Solloway: On that point, given that we do not want to harm innovation, do you have anything in place that is going to measure success? Do you have something there that will demonstrate that it has been successful?

Sajid Javid: For those new products?

Amanda Solloway: Yes.

Sajid Javid: Yes, we will, of course. When we introduce new products, we will want to do that alongside making sure we have proper measures and mechanisms in place to look at the successful product. Partly the pilots will help us develop that.

Q136 Amanda Solloway: In terms of loans, you will be able to look at the success of loans as well.

Sajid Javid: Yes.

Q137 Amanda Solloway: In terms of the RAB, I wonder if that will have any impact. Do you think there will be any implications for the grants to loans? Will there be any impact from that at all?

Sajid Javid: Do you mean on the RAB charge?

Amanda Solloway: Yes.

Sajid Javid: There will be a RAB charge eventually for loans. I could not tell you what that is today because there is no final design. I suspect there certainly will be, and at that time that is something certainly we will publish.

Q138 Amanda Solloway: One final question: one of the things that we look at is rewarding success, and it is great that £1 billion is going to the aerospace and automotive industries, but I wonder whether there something that you will also be looking at for potential for success as well. Is there going to be an investment in potential businesses?

Sajid Javid: What do you mean by that?

Amanda Solloway: We have the £1 billion, which is very good, and we said that there is no business that you are going to pull out. I think Iain was mentioning it earlier. It would be interesting to know whether there is anything else you are seeing as a venture going forward that would be advantageous as well as aerospace?

Sajid Javid: Outside of aerospace and auto, where there are dedicated resources available, for other businesses it is mostly through Innovate UK. We approach that with the right principles. Ministers, me or my colleagues do not make the decision about what form the help should take exactly and who should get it. That should be done independently and it should be based on the returns and also an assessment independently of Ministers about the success and other impact it would have in terms of jobs and growth. That way of making those decisions and that principle will not change, despite the products changing.

Chair: Time is cracking on and I am conscious of time, but if we could keep you for just five or 10 minutes more, that would be helpful.

Q139 Paul Blomfield: If I could raise a separate issue, which is about steel procurements. Obviously you will be aware that some time ago EDF stated that 40% of the forgings for Hinkley Point could not be produced in the UK and therefore were not tendered for UK suppliers. Your Department last week—very helpfully, if I might say, and I was very pleased to see it—issued a statement with Sheffield Forgemasters saying that only 20% of the forgings could not have been produced in the UK. That means that 20% of the forgings could have been produced here but British companies were not given the opportunities to tender. Are you concerned about that?

Sajid Javid: First of all, I agree with you that the statement from Sheffield Forgemasters was very helpful and reflected what you said. However, my understanding is that they are talking about Hinkley Point C and potential future investment. EDF has not made any decisions yet, so I am not quite following where you are suggesting that EDF had made decision already about exactly who they are going to procure from or not. I am not sure where you got that information from.

Q140 Paul Blomfield: It was the statement made by EDF.

Sajid Javid: Unless we are working from different statements, it was a statement not by EDF; it was a statement by Sheffield Forgemasters on 1 February.

Q141 Paul Blomfield: The statement was last week, which was from your Department—a joint statement with your Department and Sheffield Forgemasters, which was very helpful. It said that in relation to Hinkley Point, 80% of the work could be done in this country.

Sajid Javid: Forgings.

Paul Blomfield: Forgings, yes, and 20% could not, but there are, within the gap between that 20% and the 40% that EDF originally talked about, a number of not ultra-large but nevertheless large forgings, which could be produced in the UK but for which UK suppliers were not given the opportunity to tender. Are you concerned about that?

Sajid Javid: My understanding is that EDF have not yet made a final decision on the procurement in these issues. What they have said is that it is clear that a large proportion of the hundreds of thousands of tonnes of steel that we use will come from the UK. I am not aware that they have ruled out one company or another. What we do know, from the statement, is that Sheffield Forgemasters is perfectly capable of producing 80% of the forgings required. The ultra large, by their own statement, as my Business Minister said, is not something that they can produce. What I want to see, not just for EDF but more broadly and that is the important part of your point, is that when it comes to procurement either by the private sector or public-sector-led, we want to see as much as possible that it is British steel. There are many very good examples of that. There have been recent procurement projects, whether it is what Network Rail is doing, or what Crossrail has done, or defence spending on ships and others, it is British steel that dominates, and that is the way it should be.

Q142 Paul Blomfield: You would be concerned if it was drawn to your attention that there were forgings that were required at Hinkley Point, which could be supplied in the UK and that UK companies were not given the opportunity to tender. That would concern you.

Sajid Javid: Of course, yes.

Q143 Chair: Secretary of State, one of the biggest problems facing the steel industry in the UK and Europe is Chinese dumping. The European Commission is proposing to introduce regulations, which would lift the so called lesser duty rule, the rule governing the calculation of tariffs and that currently prevents the impositions of higher tariffs, but this proposal has been blocked by the UK. Why are you taking this stance?

Sajid Javid: The first thing I would say is that the UK has been one of the most vocal and proactive in making sure that the EU takes action whenever there is evidence of dumping of anything, but in this case obviously steel. As you know, the way the process works is that we cannot just make that decision on our own. Whether duties are applied or not is a decision for the Commission. I have had a number of discussions with the Commission. The first emergency meeting of the Competitiveness Council I called for was around this issue. Just recently, alongside a number of other equivalent Ministers in Europe, we sent another letter to the Commission asking for faster action in terms of when

they carry out their investigation—for the Commission to move much faster. By the way, on Monday next week there will be a meeting in Brussels on this important issue, on steel, in particular about what more can be done with other stakeholders, including manufacturers, trade unions and others. We have led the way and I am proud we have done that and managed to see some results.

On your particular question about some countries calling for a change in the rules, what we are asking for, to be clear, is an application of the existing rules because we believe that the tools that are required are already there but they just seem to be slow when they are being used, especially in the evidence-gathering process.

Q144 Chair: Secretary of State, may I push you on that? In terms of the lesser duty rule that I mentioned and the proposal to lift that, would you change the UK Government's position within the Commission to allow that to happen in order to safeguard as much as possible the British steel industry?

Sajid Javid: When we look at this, a responsible Government would look at the impact overall to British industry and British jobs. If duties are applied that are disproportionate, it would have an impact, in Britain and elsewhere, on the consumers of steel as well. There are companies in Britain—they may be in your constituency; I certainly know there is one that I visited recently next door to mine—that would tell you that if duties got out of control and were much, much higher, it would cost them jobs and growth, and they would cut their exports to the people who are using their products across Europe and elsewhere. It is always important in such situation to be led by the evidence and to then get the right balance. That should be based on the duty that is required to correct the harm that is being done to the domestic market. To go much further might, in the short term, sound like a way to go to try and protect a certain industry, but we also have to remember that in the UK, as well as manufacturers of steel, there are also companies who consume steel as part of their productive process, and the impact that might have on them.

Q145 Chair: Do you worry that, if Britain votes to leave the EU, you could have imposition of duties and that would cost both exports and jobs?

Sajid Javid: I am not speculating on Britain leaving the EU. I am working on trying to get the best deal possible for the UK and letting the British people decide.

Q146 Craig Tracey: Productivity is the key goal. Given the recent success we have had of new business start-ups and small businesses, it seems sensible that one of the easiest ways to increase productivity is through helping those businesses grow. It was therefore interesting to see the closure of the Business Growth Service. I just wondered if you could talk us through the rationale of that and what evidence there was that it did not offer value. Certainly in the evidence that we have seen, the Government said that the Manufacturing Advisory Service helped users increase productivity by 25% and there was a 94% approval rate from businesses going through the Growth Accelerator scheme. I just wondered if you could talk us through the rationale.

Sajid Javid: First of all, all of the initiatives that we have in the Department, including the Business Growth Service, we should keep under review. That is certainly what we did with that service. From what I could see, the evidence was poor about the

service and the outcomes it was providing—the amount of money that went in and the outcomes. There was plenty of evidence, for example with the Manufacturing Advisory Service, that it helped a lot of consultants to give advice to companies and things. However, did it ultimately help those companies grow and create jobs? That is where the evidence was flimsy. That does not mean to say that the Department does not have a role in helping to provide support, and that is why we do that in so many other ways. For example, alongside the Business Growth Service funding being cut, we increased funding to what we call the growth hubs, which have grown considerably over the last few years as the LEPs in each region have grown to 39 LEPs. Each LEP now has a growth hub and they provide what I think in many ways is a superior service to what was there before. I want to make sure they have enough resources. We have worked closely with many of those LEPs in making sure those resources are there. They can provide some of the services that were there before and service more companies, rather than just being focused on a particular type of company. That was the right approach.

Q147 Craig Tracey: Are the growth hubs going to receive additional funding as part of the process, or are they just going to be expected to absorb what the Business Growth Service was providing previously?

Sajid Javid: They will be receiving additional funding and we announced as part of the Spending Review a further £24 million, for example, that has already been identified in additional funding.

Q148 Chair: Gentlemen, three final very quick questions if I may: one to you, Mr Donnelly, and the final two to you, if I may, Secretary of State. Mr Donnelly, last year the Head of Internal Audit for the Department issued limited assurance regarding your procurement process and, given what we have heard about McKinsey and the £80,000 a week—we have a phrase on my patch that McKinsey must be laughing fatty cakes at the deal they have there. What steps have you put in place to become more rigorous and provide value for money when it comes to the procurement process within the Department?

Martin Donnelly: We have been continuing to improve our internal scrutiny, not just of the procurement process but also of how we do technology and how we bring in digital, and we have strengthened those functions significantly. Our finance function in the summer, as you may be aware, actually won an award for being the best public sector finance function producing the best annual reports and accounts. We take this very seriously inside the Department. I am confident that in the current year we have continued to improve. It is not something we can ever be complacent about. We have a lot of people who work on procurement but we do make sure that we are driving value for money and that we are using the best available digital tools to do so.

Q149 Chair: Thank you. Secretary of State, thank you very much for your time. You have been very frank, honest and open with us, and we welcome that dialogue. You mentioned earlier on that this was your first Spending Review as a Secretary of State and that you were learning as you go along. That is by no means a criticism by mentioning that—believe me, as Chair, I am learning as I go along too.

Sajid Javid: I am learning a lot every day. I have learnt a lot in the past hour with you.

Q150 Chair: What would you have done differently in terms of the Spending Review negotiations with the benefit of hindsight now?

Sajid Javid: I have not given that much thought, but I am sure there are things I would have done differently. What I would have done is probably spent more time with some of my colleagues who had been through Spending Reviews and got some top tips.

Q151 Chair: We share your agenda to boost the productivity of this country. We want to work with you rather than against you to do that. We are considering the next batch of inquiries. We have looked at productivity. We have looked at the steel industry. We are looking at access to finance for small, growing firms and we are looking at the role of UKTI and exports. However, we would like your advice: in order to help boost productivity, what do you think we should be looking at?

Sajid Javid: First of all, I very much welcome the work that you are already doing on this hugely important issue of productivity. I am studying your recent report carefully and I will respond in due course as well, but there is clearly a lot of work that has gone into that. I need the scrutiny and the Government needs the scrutiny, so I very much welcome that. The areas that you have already mentioned that you are looking at are the important ones. Did you mention skills?

Chair: Certainly that will be a key theme for us and we will be wanting to look at your apprenticeship target levy.

Sajid Javid: That is certainly one area where I would welcome more scrutiny—skills, whether it is FE or HE, because that is such an important part of dealing with the productivity challenge. We have had a good set of questions on that today from Committee Members. My team and myself could certainly benefit from the help of the Committee.

Chair: Secretary of State and Mr Donnelly, thank you very much for your time. We would like to see you back as quickly as possible, but we have really welcomed your comments.

Sajid Javid: Do not make it too quick, but I will come back.

Chair: Not too quick, no. Thank you, again. We really appreciate it.