

Public Accounts Committee

Oral evidence: Overseeing financial sustainability in the further education sector: progress review, HC 910

Wednesday 23 March 2016

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Members present: Meg Hillier (Chair), Deidre Brock, Chris Evans, Caroline Flint, Nigel Mills, David Mowat, John Pugh, Karin Smyth, Mrs Anne-Marie Trevelyan

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

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

Chair: Good afternoon. I welcome you all to the Public Accounts Committee on Wednesday 23 March 2016. This is a recall session about the funding of further education colleges. Our hashtag today is #FE and our witnesses are Chris Wormald, Permanent Secretary at the Department for Education, Martin Donnelly, Permanent Secretary at the Department for Business, Innovation and Skills, and Peter Lauener, Chief Executive of the Skills Funding Agency.

Before we start, I know that you are in pain, Chris Wormald, and if you need to take a short break, please indicate that and we will adjourn for a minute or two if it will help, although we don't want to adjourn for too long because we have votes at 3.15 pm. If you haven't heard a question because your pain is too great, do ask us to repeat it.

Chris Wormald: That's very kind.

Q1 Chair: We are here today because we received a Treasury minute after our hearing at the end of last year and we were particularly concerned about the fact you are not all taking account of sixth forms in the area reviews. The reason given was that there are too many sixth forms and it would be very complicated. That was a concern for us because schools are increasingly developing sixth forms and there is a lot more multiplicity of provision post-16 and indeed post-14 with UTCs.

We thought that was a slightly pertinent factor. Can whoever wants to go first explain further, and why you rejected our recommendation?

Chris Wormald: This is something the Government thought very carefully about and we took a considered decision to do it in the way we did. That was, as you said in your question, largely a pragmatic decision based on how much more complicated it would be to include sixth forms. The area reviews are already extremely complicated and we wanted their clear focus to be on the issues that were exemplified in the National Audit Office's original report on the specific viability and sustainability of the further education sector.

We thought that adding 2,500 sixth forms to that assessment would make the reviews unmanageable, and indeed that was the experience in 2005 when the previous Learning and Skills Council attempted strategic area reviews including sixth forms. Peter was there at the time and might say more, but basically they never concluded because of the level of complication involved. We therefore decided to keep the area reviews targeted very specifically at the biggest problem, which was, as this Committee highlighted at its previous hearing, the viability of further education.

We want sixth forms to be included in the analysis stage of the review and we involve both local authorities and the regional schools commissioners in the reviews, but when it came to the brokering of recommendations and the agreement of local partners on the way forward for the college structure, we wanted to keep that very tightly focused.

Q2 Chair: Can I ask what you mean by being involved in the early analysis?

Chris Wormald: When we are doing all the mapping of the likely needs in the area—the future number of pupils and needs—we include sixth forms, but what we are not doing as part of the area reviews is making recommendations about the pattern of sixth forms. Perhaps it would help if Peter described how this has worked in practice.

Q3 Chair: Perhaps you could add to that, Sir Peter Lauener.

Peter Lauener: Yes. In practice there is fair bit of engagement and it is interesting to look at the results of the first area review to produce recommendations, which was for Birmingham. One of the recommendations specifically relates to the need to look further at school sixth forms and particularly modern foreign languages. That was linked directly to the skills needs of businesses. The issues are addressed when they are relevant.

Another example is the Teesside area review, a wave 1 review. The Regional Schools Commissioner there took her own analysis of sixth forms in the area to the first meeting and made a presentation about that. We are not saying there must be an exhaustive process of going through every—

Q4 Chair: But that sounds a bit contradictory. Am I right in thinking that the Birmingham-Solihull example that you cited is a joint area review?

Peter Lauener: Birmingham-Solihull, yes.

Q5 Chair: In that area review you have recommended that sixth forms—

Peter Lauener: No. The recommendation has come from local partners.

Chair: Right. They have recommended that sixth forms provide more foreign language teaching.

Peter Lauener: Modern foreign languages was a particular issue that was identified. That has come out of the discussions; we are not obliging every sixth form to have a representative at the table, whereas every further education college and every sixth-form college has a representative at the meetings.

Q6 Chair: Just to be clear, because I am a little confused, in that area review, there was an identified need for better foreign language skills. What is the recommendation for sixth forms in schools?

Peter Lauener: Two recommendations have been made by the local partners. First, it is recommended that Birmingham City Council and Solihull Metropolitan Borough Council should map the offer across the area for modern foreign languages, including for pre-16 groups into A-level, to ensure that that offer can provide sufficient flow of good modern foreign languages.

Chair: So the area review is actually recommending that there is another area review by the local councils.

Peter Lauener: There are some concrete immediate recommendations, and then, as often happens with reviews, there is a bit more work for partners to do.

Q7 Chair: I do not want to go into policy, but since we met last time there has been announcement that there will be a full academisation. I assume that that will include sixth-form colleges as well as schools?

Chris Wormald: Sixth-form colleges are slightly different because they are independently incorporated anyway. At the moment, they have the same status as a further education college. The change that we have made in that context is that they can convert into being a 16 to 19 academy, if they wish to.

Q8 Chair: If they want to. Right. I just wanted to get that clear. The other issue is that sixth forms are growing in number, certainly in my area, but because of the changes to how local education authorities have been configured and their roles, there has not been an analysis of the sustainability of FE and sixth forms colleges. The area reviews look at sixth-form colleges and FE colleges without taking into account that in some areas there may have been a mushrooming of other post-16 support. Maybe it is horses for courses, and perhaps such an analysis is not required in every area, but including sixth forms in schools is quite important.

Chris Wormald: We do not rule out the area reviews involving sixth forms should they want to—

Chair: Ah!

Chris Wormald: But we wanted the area reviews to remain tightly focused on what we saw as the biggest exam question, which is the issue set out in the National Audit Office Report about FE. I accept the force of your remarks, Chair, but our decision was a pragmatic one on what was doable and on keeping the focus on that biggest exam question.

Q9 Chair: Just to be clear, area reviews already under way or future ones could decide locally to look at sixth forms in schools if they chose to.

Chris Wormald: They can make recommendations of the type that Peter has described.

Peter Lauener: As Chris said at the start, they have all the data. The first meeting of any area review will look at all the data on post-16 participation.

Q10 Chair: But they could choose to have someone representing school sixth forms on the review.

Chris Wormald: Yes.

Peter Lauener: And the regional schools commissioner or their representative is always invited to the area review meetings.

Chris Wormald: We recognise the force of the challenge, and other people have made the same point, but we are trying to do this in a pragmatic way. The timeline for the area review is already quite long—it is already not until 2018.

Q11 Chair: We are certainly not keen to add to the bureaucracy, but this is pretty pertinent to future stability. We will get on to the funding of FE colleges in a moment, but we had the original hearing and got you back because many FE colleges are about to fall over financially.

Q12 Caroline Flint: Do you think that the financial viability of an FE college is impacted by the number of post-16 or 14 to 19-year-old offers available in local schools or sixth-form colleges? Have you looked into that?

Chris Wormald: It certainly can be, but as a result of the choices that 16-year-olds make about where to go. The Government will certainly not adopt a policy where it reduces choice between further education and sixth forms. As I said at the last hearing, if you look at the figures nationally, the percentages of those who go into further education and those who go into sixth forms have not changed that significantly. Currently about 45% of all 16 to 18-year-olds are in further education and about 38% are in sixth forms. That has gone up a little bit since 2010, and further education participation has dropped from about 50% to 45%, but we have not seen a massive swing, and we are not constraining people's choices about whether they go into sixth forms or further education.

Q13 Caroline Flint: Choice is quite a loaded issue. My area is not in Doncaster town centre, so lots of the schools involve bus journeys. We are particularly looking at young people who are not

necessarily going on to university. What I have seen in 18 years is the change from nearly every school not having a sixth form, to nearly every school having a sixth form now.

I wondered, when it comes to choice, whether you have analysed what persuades or influences a young person to stay in a not very good sixth form in their school, as opposed to going to an FE college that could provide more choices in what they want to do post-18. Is there any analysis looking into those influences?

Chris Wormald: I will go away and check whether there is a piece of research I could point you to. We certainly take account of that. We have just published our guidance on establishing sixth forms, with rather tighter criteria around the viability tests to be met. We have said for some time that only good and outstanding schools can establish new sixth forms. We have now said that basically you should not agree a new sixth form that is going to have fewer than 200 pupils and is offering fewer than about 15 A-level courses, either alone or in partnership. We test both the basic need for the places and the effects of providers. We do all that within the context—

Q14 Caroline Flint: Will that be applied retrospectively?

Chris Wormald: No, that is for new proposals. As I say, certainly since 2010, we have not seen a huge growth in sixth forms. I do not know the specific story in Doncaster. That is all done within the context that the Government will not be constraining choice or preventing new providers from coming into the system to offer further choice, even when—

Q15 Caroline Flint: Even when the outcomes are not showing any increase in the number of young people staying on at 16.

Chris Wormald: No. More people are staying on at 16. We have the lowest level of—

Q16 Caroline Flint: I am talking about in my own area, where there is quite a lot of debate about where we are in terms of educational attainment. Even though we may have numbers staying on, they are dropping out. You are not going to look at what is actually currently happening across that piece, then.

Chris Wormald: We are certainly looking at views about what is happening in the further education space. We are not taking that wider look. As you have raised it, I will go and look at the specific situation in Doncaster. We don't see that nationally.

Q17 Chair: One of our concerns is that if you are 16 to 18, you should be getting a good option wherever you go. The worry is that, if FE is struggling, that becomes less of an option.

Chris Wormald: Which is why we embarked on the area reviews in the first place.

Peter Lauener: May I comment on the figures on participation? The figures on participation for 16 to 18-year-olds are higher than they have ever been. One interesting thing that is happening at the moment is that 16 to 18-year-olds are increasingly choosing apprenticeships, not just FE colleges or school sixth forms. There is a big choice for 16 to 18-year-olds. Young people will now

travel quite a long way to get the right choice for them. I know that in the south-west in particular, young people will go quite a distance—over an hour each way—to get a really good choice.

Chair: Talking of the south-west, I will bring in Karin Smyth.

Q18 Karin Smyth: On that point, we had an exchange at the last hearing on exactly this point, about Bristol South. I will remind you that it sends the fewest number of youngsters to university, according to UCAS figures. That is a booming economy in a very wealthy city, although the problems sound exactly as they are in Doncaster. For youngsters in Bristol South, the post-16 option and apprenticeships are the key to aspiration and success.

The exchange we had, which I have just looked at again, picked that up exactly. I asked who was accountable for the outcomes of those young people. The answer was again around choice. Since then, we have had devolution thrown in, so there is another player on this pitch. My appeal echoes Ms Flint's. Our concern is really about the outcomes and who is holding the ring for that. I am still not assured on that issue.

Chair: Which one of you will be the one who steps up on that?

Peter Lauener: I think I might have said this last time, but the institution or the provider has to be primarily responsible for the outcomes. There is then the system of accountability, including Ofsted inspections, and one of the important things in relation to sixth forms is that Ofsted has a separate judgment or mark for the sixth form in their inspection of a school.

Karin Smyth: It does. I think that the question is unanswerable, actually. We know about the drop-out rates and the numbers of players on the pitch. We know what is happening to these children, and we can see how they are being failed by the fragmentation and, I would argue, the choice in the system, when they are not equipped with full details of the quality of provision. That buck doesn't stop with anybody at local level, and somehow we need to untangle that.

Q19 Chair: Which one of you lies awake at night worrying about children and young people, whether they are in Bristol, Doncaster or wherever, who are not getting a good deal? Are the area reviews one thing that salves your worries and lets you sleep at night?

Chris Wormald: I am sure that a lot of people in the education system worry about those things continuously. The Government's position is that the answer in all those circumstances is both to raise the standard of individual institutions and increase choice. We are moving away from a top-down system in which there is a single point of control. That is a piece of policy.

Q20Chair: But isn't there a problem in that increased choice can mean that those institutions choose the people who will do well for them, but where do the young people go who do not automatically do well, with sixth forms increasingly setting academic standards for entry and sometimes turning away pupils who have been there up to the age of 16? I am thinking of pupils who are perhaps not the highest achievers or who have chaotic things going on. I visited my local sixth-form college and some of the students told me about their chaotic family background that had caused problems in their lives. Who cares and who makes sure that they are picked up?

Chris Wormald: As I said, a lot of people should care about those things. We want to see a diverse range of provision that caters for all types of pupils. When we look at the national figures, this approach has led us to the highest 16 to 18 participation since we started recording that, and the lowest level of NEETs. The Government therefore has some quite clear evidence that this approach works.

Q21 Chair: Participation is one thing, outcomes are another.

Chris Wormald: Yes, and we have also got more people who are qualified in English and maths than I think we have ever had as a result of what we have done. We have done an awful lot around the qualifications framework. Although there is a difference between us and the Committee's questions about how one might achieve it, I don't think there is anything between us and the Committee on what we are trying to achieve.

Chair: I would hope not.

Chris Wormald: Indeed, the White Paper that we published last week made a very big point about educational excellence everywhere and the need for Government to intervene where there was not educational excellence. I don't think that we are a long way apart. It's just that, as you know, the Government's policies in this area are about autonomy and diversity, both pre- and post-16, and that is their mechanism for seeking to achieve educational excellence.

Chair: We are not here to discuss the policy, we are here to discuss the money.

Q22 John Pugh: Mr Wormald, I do not want to increase any of your pain, but can we go back over the initial points that the Chair made a few minutes ago? I want to be clear that I have got you clear, if nothing else. We have FE area-based reviews, which will presumably make recommendations about 16 to 18 A-level provision as provided by the FE sector. That is one thing that they will do. They are either going to talk about under-provision or over-provision or duplicate provision.

Chris Wormald: Yes.

John Pugh: Okay. You said, I think, that in doing that, they may look at the sixth-form sector in secondary schools and academies.

Chris Wormald: They can certainly make recommendations, but the crucial point about area reviews is that, again, they are not a top-down exercise. They are about local partners coming together and making decisions.

Q23 John Pugh: You said that they may look at sixth forms—it is a permissive thing. Would you like to firm that up and say that they should?

Chris Wormald: No, I think—

Q24 John Pugh: Why not?

Chris Wormald: I think that the area reviews should look at the evidence in front of them and decide what they wish to take forward.

Q25 John Pugh: If an area-based review proceeded in total ignorance of quite radical things happening in the sixth-form sector, that would be okay?

Chris Wormald: Sorry, we are talking at slight cross-purposes. No, definitely in the way that we run area-based reviews, the analysis needs to cover the whole piece.

Q26 John Pugh: Right, so they should.

Chris Wormald: But that is separate from whether we would require people to—

Q27 John Pugh: I think what you're saying—I think you're trying to avoid using the word “should”—is that they would certainly be wise to look at what is happening in the sixth-form sector.

Chris Wormald: Certainly to look, but I want to come back to the point that the exam question that we want area reviews to be able to settle is the financial viability and sustainability of the college sector set of questions that the original National Audit Office Report was flagging, and we do want to—

Q28 John Pugh: So the FE sector should be sensitive to what is happening out there in the sixth-form world—just yards away, or miles away from it, or whatever?

Chris Wormald: Yes.

Q29 John Pugh: Do you think, equally, that the schools sector should be sensitive to what the area-based review concludes?

Chris Wormald: Yes, I think they should be sensitive to it, and I'm sure that anyone running an education institution would want to be.

Q30 John Pugh: Suppose the FE sector feels that, actually, the schools sector is not helpful in this respect and there is no agreement, at the end of the day, in the area-based review—you've emphasised the consensual thing. What happens then?

Chris Wormald: If there is no agreement with an area-based review? Well, they are a bottom-up exercise, and if there isn't a consensus, then recommendations won't come forward.

Q31 John Pugh: I know a lot of colleges are doing their own research now, coming up with suggestions, and there's a hope that a consensual picture will emerge at the end of the day. If it doesn't happen and there is a disagreement or a stand-off or an unwillingness of the FE colleges to

reduce 16 to 18 provision—because they feel they wish to and the sixth-form colleges also feel they wish to—there'll be no imposition?

Chris Wormald: We are not planning any imposition. We would of course look at situations on a case-by-case basis, but we are talking here—certainly in the case of further education colleges—about autonomous institutions classified in the independent sector, who live and die by, eventually, their own decisions. We are certainly not planning to be challenging that autonomy.

Q32 John Pugh: And there'll be no imposition from BIS either?

Chris Wormald: I will let my BIS colleague answer that one.

John Pugh: The Minister gives the impression that there will not be an imposition.

Martin Donnelly: Could I just add a note of optimism on that?

Chair: Please do.

Martin Donnelly: We had a letter from David Collins, who is the independent FE Commissioner, last week, around the college system—I think it is publicly available—saying that there was evidence of a “new collaborative approach” across the sector to “quantity...quality” and “sustainability” and that it had been “a remarkably smooth process”.

Q33 Chair: Didn't he also say it was taking a while to sort out the funding problems?

Martin Donnelly: I think he said not everything had gone completely to plan, that wave 1 had taken longer than expected and that communications were variable, but that overall there was a clear agenda for change.

Q34 Caroline Flint: Following on from Mr Pugh's question, and also picking up Mr Lauener's point that there was a feeling that language wasn't attended to in an area, if local partners feel the need to look wider, could a school that is providing a sixth form just refuse to take part in that exercise?

Peter Lauener: Can I just say a little bit—

Caroline Flint: Can they just say, “I don't want anything to do with it.”?

Peter Lauener: No one can be obliged to make a change as a result of the area review—that was the point that Mr Pugh was making a moment ago. The intention is that we put in place a mechanism that will allow the needs in an area to be identified and debated and the ways of meeting these needs to be analysed in a different way, and the comments in David Collins' letter that Martin just referred to are really very encouraging in what is a new process. We've got the first wave of results just coming through. Birmingham and Solihull is the first set of recommendations to come out, and it is quite interesting that they chose to cover some schools issues, but it is not possible—

Q35 Caroline Flint: I would have been amazed if they didn't.

Chair: Yes, it's common sense.

Peter Lauener: But it's not possible to oblige any institution to make a change against their will. They have to—

Caroline Flint: Okay, so I come back to—

Peter Lauener: There will be financial drivers and there will be needs drivers. If I can give another example from a different area, there's a danger of thinking that the area reviews are just about 16 to 18. They also, of course, cover the skills and economic development agenda. I was told that in Surrey, which is one of the wave 2 areas, there was a fantastic presentation by the two relevant local LEPs about the skills needs in the area.

Q36 Caroline Flint: Public money goes into FE colleges—yes or no?

Peter Lauener: Yes.

Q37 Caroline Flint: Public money goes into schools—yes or no?

Peter Lauener: Of course, yes.

Q38 Caroline Flint: And therefore there is an interest on behalf of the taxpayer that that money is well spent to meet the learning and skills needs of young people in that local population—yes?

Peter Lauener: Indeed.

Q39 Caroline Flint: So, what if it is found, as part of a review by local partners, that one of the needs of an area is that there is not enough joined-up work on modern languages, or maths isn't that great, or English is not as good as it might be, and they point to the fact that a cause of that might be a fractured provision of subjects across the area those young people are living in? Pretty much nobody is held to account for that, and a problem within that system is that one provider or two providers can just opt out and not be held to account for failing those young people in that area.

Peter Lauener: Individual institutions are held accountable.

Q40 Caroline Flint: No, but you can understand that this is across the piece, isn't it? Speaking as a mum, when young people choose their options at 16, often it is not choice that it is the issue, in the sense that you have put across. The problem is that, if they want to go to one institution, their choice is determined by what that institution can offer. If they are in a more rural area and they want to stay at their local school, but it does not offer German or Mandarin or what have you, they are stuck with the choices they've got. Therefore, nobody is attending to the real needs across the piece of those young people. That is not a choice, is it?

Peter Lauener: I quite accept that there are issues in a rural area where there may be a limited number of institutions.

Caroline Flint: Or a semi-rural area.

Peter Lauener: But I have been to institutions where young people go for an hour to get the choice they want. I was in Sheffield UTC recently. A young person had travelled an hour on the train to get there because it was a particular digital course that they wanted to do, so people will follow quality and find quality.

Chris Wormald: Just to directly answer Ms Flint's question about accountability, yes, accountability is at the individual institution level. That is where it bites both for inspection and results—

Q41 Caroline Flint: If a combination of all those individual institutions is not providing enough real choice and a quality offer to most young people in an area—I am particularly concerned about those who may not be following the more traditional academic route—who do we hold to account?

Peter Lauener: We do have a further valve for that. We have talked a lot about colleges, we have talked about sixth-form colleges, we have talked about schools and we have talked about apprenticeship providers, but we also contract with charitable commercial providers to provide the kind of niche provision for disadvantaged young people who might not be ready to go straight back into the full-time education system. If a local authority feels that there is not enough of that kind of provision, we will run a small tender with the local authority to bring other providers in.

Q42 Caroline Flint: So just more providers? You are not dealing with the providers already there that are not providing?

Peter Lauener: That starting point is always to say, "Is there a suitable local provider?" We have not done this recently—it is a standing offer and we have done it over the years—but, small scale, we will bring other providers into the system.

Q43 Chair: We are going to come on in a moment to the issues around the funding and viability of FE colleges. We are aware that we have a vote at 3.15 pm, so if we are very quick in our answers and questions, we might manage most of it by the end. I am going to bring in the Comptroller and Auditor General before we move on to that section of questioning.

Sir Amyas Morse: Is it all right if I ask them again a question which relates to funding?

Chair: Absolutely.

Sir Amyas Morse: Okay. I just wanted to make sure that I had understood this. You have an area review, and if you have further education colleges that are under financial pressure and need to be bailed out in some way, they are pretty much going to have to go along with whatever. While no institution is forced to do anything, they are kind of more forced than others.

Peter Lauener: There is a big financial incentive.

Sir Amyas Morse: Thank you. You've now got a competitive environment that includes schools sixth forms and further education colleges in the same market. So in this round, those who are in financial difficulty are going to be inclined to go along, and then in future, if there is over-supply and competition in the market, the people who will get into trouble financially will be the further education colleges again, won't they? In other words, there seems to be only one loser from the competitive environment, if I can be blunt about it. Is that fair? It seems logical, doesn't it?

Peter Lauener: I am not sure. It is a good challenge, but I am not sure it is actually what will happen in practice. First of all, we are seeking to get much stronger and more resilient finance in the sector. If I take the Birmingham and Solihull area review again, there is a very clear commitment that South & City College Birmingham and Bournville College will merge. That will make a much stronger institution. There will be a question about whether that should be supported from the restructuring facility that the Government has set aside to rebuild the sector on an investment basis, but our intention is very much that this is a once and for all restructuring of the further education sector. I know that is understood.

Sir Amyas Morse: I do realise that. I am asking whether that means that in future there will be a competition between a funded sector and a non-funded sector—is that right?

Chris Wormald: No. At 16 to 19 the funding is identical. It follows the learner. That is one of the biggest things that the Government did in the last Parliament—it equalised the funding between—

Sir Amyas Morse: But if I am a further education college and I get into trouble—I am under pressure, and I do not have my pupil numbers and so forth—then the question is, what happens then? After you have done this, if it works perfectly and everything is viable into the future, that is great, but if it turns out that there are still more colleges that find themselves getting into difficulties, then we are going to end off with some further rationalisation, aren't we?

Peter Lauener: More detailed area review guidance was published recently, and one of the things that we referred to in that was the Government's intention to move forward proposals for an insolvency regime to apply to colleges. We are also working very hard on early intervention, which was of course flagged up in the National Audit Office Report. We are putting a lot of effort into the early indicators and into making these much more available for the governors of an FE college. We have been doing everything we can to improve—

Q44 Chair: May I speak up on this insolvency issue? Will you explain briefly? The new regime will allow colleges to become insolvent—is that what you are saying?

Peter Lauener: We are looking at proposals. We expect that a consultation on that will be published shortly. It was flagged up in the area review guidance—

Q45 Chair: So this will let Government off the hook of having to bail them out when there is a problem.

Martin Donnelly: It is, essentially, clarifying a position that is already the case, given that these are independent charitable institutions managed by governors. What we want to consult on is how best to clarify the insolvency regime that would apply were this to happen. As we discussed last

time, it has not happened yet and, obviously, we hope through our intervention process that it will not be necessary, but we want to clarify that.

Q46 Chair: Before I bring in Karin Smyth, I want to ask Peter Lauener how many colleges you expect to have an inadequate financial rating by the end of this academic year.

Peter Lauener: When I sat in front of the Committee last time, there were 29. We were just going through a reassessment exercise and I said that it might be in the upper 30s; actually, it was a few less than that, and we ended up with 34. That was at the end of the 2014-15 year.

Q47 Chair: Your modelling was showing 70, wasn't it?

Peter Lauener: As I explained last time, that was a modelling figure. It was not a forecast, but a projection if things did not change—

Q48 Chair: Okay, so it was 34.

Peter Lauener: It was 34 at the end of the 2014-15 year. The 70, which was quoted in the National Audit Office Report, referred to the end of the 2015-16 year. I would expect it to get a little bit less—

Q49 Chair: That is what I am asking. How many do you think it will be?

Peter Lauener: We are always making all kinds of projections with different assumptions, but we have not got an actual forecast that we are making at the moment.

Q50 Chair: Will it be higher or lower?

Peter Lauener: It will be a bit higher. It has gone up—29, 34—and it will be up a bit again. In some other ways, on the financial health of the sector, there is more prospect of establishing a strong financial basis—

Q51 Chair: What do you expect in 2016-17? Are you projecting forward that far, on the number with inadequate financial health?

Peter Lauener: I think one of the reasons it will get a bit worse in 2015-16 is that the budget is a lot lower than in 2014-15. The much better spending review settlement is in the allocations that we have now issued for 2016-17: flat cash for the adult education budget, broadly flat cash for the unit price for 16 to 19, and an increase in apprenticeships, with a further increase in apprenticeship funding coming forward from 2017-18.

Q52 Chair: So you are thinking that it will not be so bad next year.

Peter Lauener: There is a much better outlook on funding than there was a year ago, so there is a prospect—particularly with the sort of things that we are now doing on the area review—that we should begin to see financial health getting better from 2016-17—

Q53 Chair: If you say there is a prospect, we will have you back—

Peter Lauener: But I am very cautious about making projections.

Chair: I can sense that. It would save us time if you just said that at the beginning, rather than giving us long answers. I am aware of time. The vote will interrupt us.

Q54 Karin Smyth: I want to come back to the policy issue. Mr Wormald, you said that the Government's policy is around autonomy, diversity and choice, but it is presumably also around improving outcomes for these young children.

Chris Wormald: The purpose of autonomy, diversity and choice is to improve outcomes.

Q55 Karin Smyth: What we are getting at is the matching up of those two policy areas. I also met with the FE commissioner last week; he attended a meeting here. He was very clear that working with the local authority as a stakeholder was also really important. Given that what the area reviews can and cannot do seems to be a slightly movable feast, I would like you to consider, Mr Donnelly and Mr Wormald, whether it might be helpful, between you, to instruct or guide those area reviews locally to make someone accountable for the outcomes of young people. Is that something you could take away from this?

Chris Wormald: I am happy to take the question away, but that is a policy question for Ministers.

Q56 Chair: Yes, to be fair, we are straying into policy there.

Chris Wormald: I completely understand the point you are making.

Q57 Chair: But we are a Committee that looks at effectiveness as well, so Ms Smyth was entitled to ask the question.

Chris Wormald: Of course, and local authorities are a key part of the area review process.

Q58 Karin Smyth: But they are also not accountable either for those outcomes.

Chris Wormald: No. It is probably better if we do not further debate that because, as I say, it is a straight policy question. I completely understand the points being made, but that is not the Government's current policy.

Peter Lauener: Local authority representatives are chairing quite a number of the area reviews. The Greater Manchester one is chaired by the chief executive of Trafford Council. The Sheffield city region area review is chaired by a member of the local enterprise partnership. So there is very significant involvement of local authorities in the process.

Q59 Chair: I want to go back to the current situation for FE colleges. How many notices of concern are currently live with FE colleges?

Peter Lauener: There are now 41 FE colleges and four sixth-form colleges in formal financial intervention. One of the things we have done since the last meeting to promote transparency about all this is publish monthly updates on the list of organisations in financial intervention. We hope that that is a helpful contribution to understanding in this area.

Q60 Chair: How are the colleges reacting to those notices of concern? We had some discussion last time, which we do not want to repeat, about the ability of governors and management to deal with them. What is the picture now?

Peter Lauener: I mentioned earlier some of the things we are doing on early intervention, and we have had a pretty good response from colleges and from corporations to our making available dashboards on a regular basis. We are consulting with the sector at the moment about the measures of financial health. I had a long debate at a conference recently with the chair of a corporation, who was—

Q61 Chair: So it is improving? You are smiling. Does that mean it is improving from what it was when we last saw you?

Peter Lauener: I think the understanding and engagement—again, it comes back to some of the things that David Collins wrote about in his letter. The area reviews have been a real focus for engagement of corporations and looking afresh at what is happening in the system. There is a very clear structure for the way they should work, and I think that that's working.

Martin Donnelly: Briefly, the other point I would add, because it is relevant to the financial sustainability, is that, as you know, there will be a growth to £2.5 billion on the apprenticeship spend. We see colleges using area reviews to look at how they can use more of that funding themselves. When the colleges take on dedicated apprenticeship teams, like New College Durham has, it makes a big difference to their financial viability, and there is a lot more funding there for them to go for.

Q62 Chair: We will not get into the policy, but money is certainly driving activity. Can we talk about the further education commissioner? We had some recommendations and thoughts about that in our Report. How many colleges are currently subject to intervention by the FE commissioner?

Peter Lauener: As of now, the FE commissioner has intervened in 39 general FE colleges in total.

Q63 Chair: Okay. So there are 39 subject to the FE commissioner and 41 subject to notices of concern.

Peter Lauener: There is an overlap; there is a flow in and a flow out. Basically, they start with us because we make all the financial assessments. We then refer them to the commissioner. They then stay there for a while. The commissioner produces recommendations. All those recommendations are published. They are then referred back to us, to manage.

Q64 Chair: But roughly speaking, we talked about the figures—the 29 colleges that had inadequate financial health ratings in 2013-14, and 34 in 2014-15. You did not want to commit to 2015-16, but the numbers you have given us suggest around 40.

Peter Lauener: They are slightly different categories.

Q65 Chair: But they are on the same pathway.

Peter Lauener: They are on the same categories. To make the obvious point, I said that there are 34 colleges in inadequate financial health and I also gave you a figure of 41 FE colleges and four sixth-form colleges in formal financial intervention. There are a few there that are in financial intervention, even though that is more than the number that are in technical inadequate financial health. That is a ratio. It is a formula-based system.

Q66 Chair: We need to pin down the numbers because that it always helpful. So in total—as you say, there are overlaps—how many colleges do you have financial worries about, whether it is inadequate financial health, notices of concern or anything else on your radar? What is the total if you added them all up?

Peter Lauener: Partly because of the early intervention system, we have introduced a new system of categories and we are monitoring more colleges than we were. The number of formal financial interventions is a clear measure because a year ago it was 35 FE colleges and it is now 41. We are looking at another 60 or 70 closely to try to prevent them—to try to help them to prevent themselves—

Q67 Chair: So you think that there are 60 to 70 that you can prevent, and there are 40-something that are still a risk.

Peter Lauener: Yes. Could I give you another figure from the commissioner's workload? It is very interesting. I mentioned 39 that he had dealt with. He has ended his intervention in 16 of those 39 cases. Those 16 will be back with us because he will have made recommendations that will then need to be followed through. That is quite significant. There are some colleges with really deep-seated problems, where it takes a long time to find a result. There are others where quite a quick turnaround is produced. It is not a sort of single problem.

Q68 Chair: It is worth saying that we follow the money, so we are interested in the financial concern. I suppose that some of those could have come out of the concern because they have closed

or merged. That is a reality, isn't it? Some of them may move from being of concern to being out of the woods because they are no longer there, or they have merged with another college. There may be an impact on the user even if the finances are sorted out.

Peter Lauener: To take a couple of examples, one of the early colleges that the commission looked at was a small college down near Bath—an agricultural college called Norton Radstock. The proposal was that it would merge with Bath College. That has happened; it has gone through and there is a much stronger entity as a result. So that is one college that, on a previous occasion, was marked as in inadequate financial health, and was on the commissioner's workload. That is now going really rather well.

Q69 Chair: So then my question is: are you watching—this picks up on what Ms Smyth and Ms Flint raised—whether that has diminished the total offer in a local area? It is important, of course, that institutions are financially stable—one of the reasons that we are here as a Committee is to check that that happens—but if there a diminishing service to potential students, that can be—

Peter Lauener: That is always one of the things that is looked at with a merger. Sometimes there is overlap that can be eliminated with savings but not reducing the offer, but it would not be something that any colleges would just rush into. The area review puts a much more structured process in place for doing that across an area.

Q70 Chair: From your perspective, would you sit there and allow a merger or a closure if you felt that there was going to be a gap in provision in an area? Would you then step in with some funding to support—some grants or loans?

Peter Lauener: Again, I come back to the structure of the area reviews, which starts with a proper assessment of the needs. The answers that come out are designed to reflect those needs.

Chair: It is helpful to have that on the record.

Peter Lauener: It is a well designed process.

Q71 Caroline Flint: An article in *FE Week* dated 21 March cites the fact that, among other colleges, City of Bristol College is “set to receive...£11m in exceptional financial support” by the end of the year. How many colleges have requested such funding in the past two years?

Peter Lauener: I can tell you the number of colleges that have had exceptional financial support, if you just give me a moment.

Q72 Caroline Flint: How many actually requested it? They may not have got it, but those who got it would be helpful as well.

Peter Lauener: Seventeen colleges have exceptional support—at the moment, about £80 million; that will go up to about £98 million by the end of the year. This is always a time when we make these assessments and someone comes through. That is a lot of money, and my aspiration is to maximise the amount of that when exceptional financial support is provided.

Q73 Caroline Flint: Sorry, did you say 17 colleges?

Peter Lauener: Seventeen colleges.

Q74 Caroline Flint: In the last two years?

Peter Lauener: That is the number that have got exceptional financial support now. I can't quite think of—

Q75 Caroline Flint: Perhaps you could write to us.

Peter Lauener: I will take it away and check whether there are any that have asked but not received it. There probably are. We always challenge any proposition that comes to minimise the cost to the taxpayer.

Q76 Caroline Flint: One of the issues raised is that a number of colleges are getting into some of these problems because they plan for certain courses, such as adult skills. By that, I mean getting into work skills. Sometimes it's unfairly said that it is basket weaving or something like that—not that there's anything wrong with that. As I say, most of the courses are linked to the jobcentre and adult skills; they planned for that, but then reduced funding came in so they found that the rug had been taken from under their feet, so to speak. Decisions by Government have created some of these financial problems. Is that fair?

Peter Lauener: I think that's why we are now in a much better position. The budget settlement for the spending review period was set out in a skills funding letter from Nick Boles to me a short time ago. It contained a lot of information; it was a very positive budget letter, and also a very clear strategic account of where the Government want to go with their skills funding and adult education funding.

Q77 Caroline Flint: Lincoln College, which is cited in this report, says, "The mobilisation of our KSA colleges"—that is the Kingdom of Saudi Arabia—"included exceptional costs that are currently the subject of negotiations with Colleges of Excellence in KSA." Then it says, "International development remains an important strand of Lincoln College Group's financial strategy to reduce our reliance on central government funding." Where are the priorities for FE colleges, in terms of the local communities? Are they having to look for that sort of funding just to keep themselves going?

Peter Lauener: I read that article.

Caroline Flint: I found it quite strange that their problems with money are to do with that.
[Interruption.]

Chair: Can we keep to the questions, because the bell has gone? Very quickly, Mr Lauener. We've got about a minute, and then we must dash to the vote.

Caroline Flint: What do you think of that?

Peter Lauener: I don't have a problem at all if colleges are diversifying and helping British exports by selling education abroad. I would have a lot of concerns if that article refers to financial difficulties caused by that. I would have major concerns. I think it is really important that any corporation looking at that kind of investment takes a very careful look at it and does proper due diligence and makes sure it is something that will further the core mission of the college.

Chair: I am going to have to cut you off there, because we're going to vote. We'll be back as quickly as we can. I envisage that there are going to be about 15 more minutes on this part of the session. You can take a stretch break, Mr Wormald.

Chris Wormald: Thank you very much, Chair.

Sitting suspended for a

Division in the House.

On resuming—

Chair: Mr Evans is here, so we can get back to where we were. Ms Flint, you were mid-questioning. Had you got your answers on the *FE Week* article?

Q78 Caroline Flint: I was interested in just how many colleges had sought this exceptional funding arrangement. We got a sort of an answer to that.

Peter Lauener: I will write. I mentioned the 17, and that probably goes back over a couple of years, but I will check and write to the Committee if there is any more information than that. Actually, some colleges would have had exceptional financial support and then repaid it; the figures I quoted were for long-term exceptional financial support. We also do a cash-flow, short-term sort of exceptional financial support. I will write with a bit more detail on the way that system works.

Q79 Chair: I am hoping that we can wrap up this section in the next 15 minutes. We have talked quite a lot about the area reviews, but one of the concerns you have heard us talking about repeatedly talk about is the wider area. One of the main aims of the review was to create financial sustainability for FE colleges. Given that it sounds like there are lots of different approaches in the area reviews, how are you making sure that the outcomes of the reviews will deliver more sustainable solutions to meet local needs and you will not face problems down the line? How are you guarding against that?

Martin Donnelly: Let me kick off in—I hope—crisp, general terms. Essentially we are seeking to work with the colleges to assist them, through Peter, the EFA and SFA¹ and, where necessary, the more detailed monitoring process which David Collins and his expanded team are leading, to improve their management and leadership to come into a sustainable place that meets the needs of the region, both educational and economic, which is where the LEPs play an important role. Through the spending review we have got broadly flat cash for the adult skills budget and an increasing apprenticeship budget, so there is resource there. We need to help the colleges to find the best way to connect with that resource while delivering what is needed by the local area.

¹ Answer clarified by the Department in writing, 01/04/2016

Q80 Chair: In terms of sustainability, across all Governments we have seen funding for FE change in its make-up and level over many years. There has not been a long-term funding settlement for FE colleges for a long time, if ever. For instance, apprenticeship funding is the flavour of the month right now. That is the current policy—to push forward more apprenticeship money—so the FE colleges might shift to provide more of that; then, with a change of Government in five years' time or before then, they might find a shift back to more funded adult skills courses. How are you making sure there will be to be a sustainable future for FE colleges and that the goalposts will not keep moving, because that is what has been happening in recent years?

Martin Donnelly: On the apprenticeships issue, there is, as you know, very broad cross-party support for the apprenticeship levy. We are clear that that is ring-fenced for use on apprenticeships. We can be confident about spending out until 2020 and my personal view is that the apprenticeship levy is a generational change which will stay with us and, well used, will help to deliver that sustainability to colleges and above all those improved education opportunities to people in work as well as coming into the labour force.

Q81 Chair: So you are using your funding to push the sector to deliver what Government requires through policy—I am not asking you to comment on the policy—and it may find that other courses are no longer viable because other funding is being reduced.

Martin Donnelly: I would, I think, put it the other way round. There is huge interest and enthusiasm for apprenticeships, which we have not been able to meet in the past. We have not had the right sort of apprenticeships or the right levels. All that is now being grown by businesses. People want apprenticeships—they want quality apprenticeships and they want apprenticeships locally. Businesses want them. Actually, I think this is a win-win.

Q82 Chair: Some colleagues do get worried about the focus on apprenticeships, compared with other things. There is also an issue about the age of apprentices, isn't there? There are apprentices at older ages—over the ages of 18 or 19—so there are quite a lot of issues. In this session, I do not think we will get into all of that; that is not the purpose of the session.

Perhaps I could ask you, Chris Wormald, if you think that sixth-form and general further education colleges will continue to have disadvantages because of the proliferation of sixth forms. I mentioned this at the beginning, but with academisation, any school can now make a decision about what it wants to do and can do its own thing.

Chris Wormald: As I said, we have just tightened our arrangements for approving new sixth forms. You can't just set up a sixth form; you have to apply to us. The regional schools commissioner takes the decision on behalf of Ministers, against the criteria I described earlier.

I do not think that the biggest issue is the proliferation of sixth forms. The numbers that I quoted earlier show that there has not been a significant change in the percentages of who goes on to what form of education. The challenge for general FE is the one you were beginning to discuss with Mr Donnelly of how you stay responsive to changing economic circumstances. I think that is the big challenge for general FE.

On the benefits and disbenefits of the two sectors—during the vote, the Comptroller and I were discussing this—there are a number of advantages that further education colleges have over sixth forms: they can borrow commercially, they can trade, and they can use their land pretty much

as they see fit. Previously, all those flexibilities were seen as a big advantage for the further education sector. In the current financial climate, the interesting question we might think about is whether that balance is still there, or whether the stability that schools get is outweighing those flexibilities. That is an interesting question that we might need to think about further, following on from what the Comptroller said.

Q83 Chair: We will certainly be coming back to this. Can I move on to the issue of payments in advance of need? We have been talking about the sustainability of the sector. We heard last time that you had made a number of loans to colleges and that some of those had been converted into grants. The NAO's financial audit identified payments totalling £49.9 million to 17 FE colleges that were payments in advance of need. What are you doing to watch those, and are many or any of those likely to become grants, Peter Lauener?

Peter Lauener: That was in 2014-15.

Q84 Chair: How many are still extant?

Peter Lauener: This resulted in the qualification of the accounts for the 2014-15 year. We made some mistakes in the way we managed the grants. Just to be absolutely clear: it was the timing of payments that we got wrong, so the payments were made in advance of need. The grant management was pretty secure, apart from the timing of payments, but that was a mistake and we have done a lot of work to put it right and to address the issues that led to that.

Q85 Chair: So what is the situation now, as of today? How many colleges have got loans or grants—loans first of all?

Peter Lauener: If I may, I will refer to the building programme in particular and give a little bit of context, and then take it into the wider issue. Sorry, I will just get the figures—I do have them here. There were about 95 colleges that took part. The capital budget in 2014-15 was £296 million and that was for 95 colleges. It was actually a two-year budget and that was the second year of the budget. It came to £49.9 million that we, with the NAO, estimated was in advance payments. That led to the qualification of the accounts. That amount was, by and large, all properly paid.

We always do an end of building contract reconciliation, and we have done some recoveries of funding, as we would in the normal way. We have recovered about £8 million following that end-of-year reconciliation, out of the amounts paid in 2014-15. That is a fairly standard, proper budget management process. One of the projects is still under way. Our payments for that will be finished by the end of this financial year, but the college will still be using its own resource to complete the project into the spring. That is a very, very complicated case, where the college was taking over a building from the local authority that had been built under private finance as a school; securing the necessary agreements to adapt that building so that it could be used for the college's purposes took them a long time to negotiate.

Chair: I may know which one you are talking about.

Q86 John Pugh: Is money given as part of a cash flow process—are you basically giving colleges money that they would otherwise get but at a time that is probably more propitious and helpful to them—or is it in any shape or form simply a means of stopping them becoming financially stretched? We used to talk about a bung in the health service, where at the end of the year, the strategic health authority would find ways to give hospitals different amounts of money—that was in the bad old days, you understand. Is that what is going on here, or are these quite legitimate payments, just accelerated a little bit?

Peter Lauener: Well, again, to be clear, this was the end of 2014-15, and the way that the projects were set up was that they were paid on profile. The problem is that we did not sufficiently challenge progress against the profile, so it was not advanced against the profile that was agreed at the start of the project, but when the building project slipped against the original timetable, the money had gone out on profile. That resulted in not all the money being used properly before the end of the year, because the project had slipped into the 2015-16 year and we did not have enough mechanisms in place to calibrate that. But it is not about waste of resource on the capital programmes; they were subject to very clear evaluation when they were set up and reconciliation at the end of the building projects.

Q87 John Pugh: What I am really asking is whether there was anything contrived about this funding, just to cover financial embarrassment.

Peter Lauener: The capital was not contrived by the SFA.

Sir Amyas Morse: I am sorry. Not to be churlish about it, but I am right in recollecting, am I not, that the Treasury did not give you retrospective approval?

Peter Lauener: That is correct.

Sir Amyas Morse: So effectively, you did lose some capacity. I am not saying you spent money inappropriately, but you lost budget capacity that you would otherwise have had and you had to make up that money from elsewhere in the budget.

Peter Lauener: You are quite right. The advance payments, as they have turned out to be, were not intended to be advance payments; they were intended to relate to the profile agreed with the colleges. The colleges then were not able to deliver to the profile and we did not have enough checking to make sure that the profile was met, and that meant that we paid out more in the year than we should have against the delivery of the building projects.

Sir Amyas Morse: Okay. Thank you for acknowledging that you did not check up enough. Can I just be clear: does that mean that you will not have anything like this in the year now approaching its end?

Peter Lauener: In the 2015-16 year?

Sir Amyas Morse: Yes.

Peter Lauener: Well, we won't. The only project we still have running is the one that I have just referred to. I am getting weekly reports at the moment to make sure there is no problem with that one project, which is a legacy project from the rest. But we no longer have a capital programme, because the capital funding has been transferred to the LEPs locally.

Sir Amyas Morse: Okay, so when the Treasury did not give you relief on this, what reasons did they give?

Peter Lauener: We went for retrospective approval—

Sir Amyas Morse: Indeed. And they said no because...?

Peter Lauener: Because there was insufficient evidence that there was a good reason for making the payments. I have already explained that they were made because they were matched with a profile. When we found that the profile did not match, we said, “Well, there are reasons for doing it on profile. Does that amount to a sufficient case?” I was not surprised when the Treasury said, “No, it does not,” and I thought it was absolutely fair. So I have no problems with the qualification that was issued at the end of the 2014-15 year.

Q88 Chair: It is good to have that on the record. I have three last questions; if any other colleagues want to briefly come in then please do let me know. First, can you tell us how much money the FE sector receives from the EU?

Peter Lauener: The main source of funding is from the European social fund. If you just give me one moment, I will get the figures. Over the last major programme, 1.3 million learners in England benefited from the European social fund. For the 2014-20 programme, the UK is due to receive €4.9 billion, of which €3.5 billion is due to be spent in England. We have issued tenders for the first two years of that. After the first two years we expect the funding to be devolved to a local level.

Q89 Chair: Given that you are responsible now, how are you assessing the value for money and the outcomes that that money generates?

Peter Lauener: The managing authority, as it is called, for the European social fund is the DWP, and they set the parameters of the programme within the overall framework for the European social fund. It is our job to manage the contracting process against the specification. We do that on behalf of the LEPs, and we have agreed a service level agreement with LEPs so that we reflect in the tender spec the things that are important locally.

Q90 Chair: That is the process. I am asking what you can point to that that money is delivering, and how are you making sure that it is actually delivering what it is setting out to deliver?

Peter Lauener: It is the specification against which tenders are received. The tenders are then appraised, scored and marked, and then awarded to the best bids. That is the way that value for money is secured in that area.

Q91 Chair: Do you check that they have actually done what they are supposed to do with the money when they have got it?

Peter Lauener: We have an audit process. There is a process whereby the match-funding that is always required in the European social fund is, at the moment, matched against records that we have centrally. We have done a lot of work to make sure that we minimise the error rate in that process.

Q92 Chair: How much has the UK incurred in disallowances as a result of failure to comply with the rules? We have had some interesting conversations with other Departments about this.

Peter Lauener: Over the 2007-13 programme we had a clawback of about £26 million, which was 1.7% of funding. We reduced the error rate over that period. I am happy to write and explain what the error rate is.

Q93 Chair: Please do. But the error rate is reduced?

Peter Lauener: It is significantly reduced. We have done a lot of work to reduce it, and it is in quite a good place. I do not think I have got the figure for the latest error rate.

Q94 David Mowat: How does that figure of a 1.7% error rate compare with other major EU countries in this space?

Peter Lauener: I think I am right in saying—but I will cover this when I write—that the point of concern for the European auditors that look at this is 2%; it is below that. We have done a lot of work to make sure that we are below that error rate. I cannot actually give you any international comparisons on that.

Q95 Chair: If you can when you write to us, if that is possible?

Peter Lauener: I will happily cover it.

Chair: We are concerned to know if we are better or not than Lithuania, but that is perhaps—

Peter Lauener: We will be able to extract the information about it from somewhere in the system, but it is not information that we normally have.

Q96 Chair: We had some interesting discussions with other Departments, so we are very interested in this. I just wanted to check if you believe you are on track to complete all area-based reviews by March 2017? As Martin Donnelly quoted—I will not requote it—the FE commissioner wrote to us saying that there were some issues around the timetable.

Peter Lauener: I think, as we said earlier, the first wave of area reviews was a learning process. That has been a bit delayed. It has been a process during which we have clarified the guidance, we issued new guidance, and the spending review results came out, so it seemed right to give a bit more time for that.

Q97 Chair: The simple question is will they all be done by then?

Peter Lauener: The answer to your question is that, in the last few days, we have set the final meeting for the final area review in wave 5; there are five waves and 39 areas in total. It has actually been set, as it happens, for 31 March 2017, but I am not going to sit here and absolutely guarantee that we will come in on the button.

Q98 Chair: But at the moment you have got set timetables?

Peter Lauener: We have got timetables and we have a lot more experience of running the process.

Q99 Chair: While we are always keen that deadlines are met on the Committee, there have been criticisms of unrealistic timetables levelled at you. Given that there have been delays, do you think setting that 31 March deadline for the final is realistic or are you living in hope rather than reality?

Peter Lauener: I am more than living in hope. I think the experience of the first round of area reviews shows that it is a good process. We heard David Collins's views about it earlier. We have learnt a lot from the first wave to sharpen and improve the data analysis that is presented at the start of that. You can never quite force local partners by saying, "You have got to produce your results by a particular time," so in some cases some of them will take a bit longer, but we will manage the process as well as we can within the constraints of that system. It is an ambitious timetable but I think it is deliverable.

Q100 Chair: You have said that so we will hold you to that. Mr Donnelly, we have got the outcome of the area reviews coming up. I should say that the Association of Colleges thinks that 15 or 16 colleges could be closed, or could go, as a result of all the various pressures, which we won't go through, and that we are discussing today. How will you determine whether colleges are able to acquire the investment through the restructuring facility that is earmarked for the outcome of the area reviews, and do you agree with that figure of colleges that are likely to go?

Martin Donnelly: I do not have a particular figure in mind. It will depend on the outcome of area reviews. This is a continuing process. I believe that 14 colleges have merged over the last five years and obviously we would expect that process to continue, but without a specific target because it is a bottom-up process. On the issue of access to the restructuring facility, of course our aim is to minimise public money spent while insuring that the process of sustainability takes place; so Peter's team are setting up a transaction unit, which will look very rigorously at this, and then there will have to be separate Treasury approval, as well as ministerial approval, before access is given. It is quite a rigorous process.

Q101 Chair: What if you are a college at the end of the line—the last one to go through the area review? How are you going to make sure you know that there might be some money left at the end of it for a college that might need it and that is coming in the later waves?

Martin Donnelly: The restructuring facility will continue until, I believe, the end of 2018-19.

Q102 Chair: So, when you say it will continue—it is not a bottomless pit, presumably?

Martin Donnelly: No, it is a time-limited period. Going back to your earlier point, Chair, that is another reason why we do all have an incentive to complete the area reviews on time.

Q103 Chair: We get that it is time-limited. But what I am saying is that before the end of this year, if you have enough demand and it meets all the rigorous checks that you say Peter Lauener and the SFA will be conducting, you could still have spent that entire restructuring facility.

Chris Wormald: Well, this is one of the reasons why we didn't set a budget and have done it in this rather unique way—it is a Treasury-managed call on the reserve. Now, as you say, of course that is not a bottomless pit and of course the Treasury will need to balance those calls against others and will want to ensure value for money. But what we didn't want to do was have a fixed-sum cash pot, for the reason that you have said.

Q104 Chair: My final question is probably for Peter Lauener and if you can't answer it, I would be grateful if you could write. I have been contacted by the MP for Enfield North, who represents the College of Haringey, Enfield and North East London—known as CONEL. I think you know the college. There is a concern there—and it may apply in other areas too, which is why I am asking—that they fit in to a different sub-region than some of the other colleges that they might look to merge with, and others have made decisions already. Is there anything to stop colleges working, or merging, across the boundaries of their area?

Peter Lauener: No. As far as the area review is concerned, we have had to draw some lines in the process. Of course in London there is an overarching cross-London steering group, which is chaired by the Mayor of London, but then there are four or five area reviews within that. You always have to draw lines but it doesn't mean that a college that is in one area can't collaborate with another area.

Q105 Chair: That's fine. It is just useful to have that on the record. Thank you very much. That is the end of our session on questions about FE colleges and I think we have finished now.

We agreed—and we did alert you, Mr Donnelly—that we wanted to talk about the offices that the Department of Business has in Sheffield, where you have a number of policy staff based. There has been a proposal, through this grand programme called BIS 2020, to restructure the Department and that includes the closure of the Sheffield BIS office. Before we move on to Mr Donnelly, I understand that the Department for Education also has staff based in the same office. Is that right, Chris Wormald?

Chris Wormald: Yes, I sub-let space to BIS at the moment, and indeed—

Q106 Chair: Okay. If they go, does that mean you go too?

Chris Wormald: No. We reviewed our accommodation and estate strategy in 2012 as part of the DfE review. Then we came down from 12 HQ sites to six and we committed to those six sites, and one of those was Sheffield. We currently have 440 staff in Sheffield, so it is a big site for us.

Q107 Chair: Can you tell us what areas they work on. I think I know some of them.

Chris Wormald: Well, Peter is actually based there. We have a big Regional Schools Commissioner office there, which is expanding. We do a lot of our 16-19 work from Sheffield and a lot of work around infrastructure and funding, and then Peter does a lot around the EFA. What else is there, Peter?

Peter Lauener: Some of the academies group is there. There is a big office for the EFA with over 100 staff dealing with funding issues and young people's issues.

Q108 Chair: And the proposals at the moment are that you have made this your base, so DfE is staying in Sheffield.

Chris Wormald: The DfE is staying. We are expanding in Sheffield at the moment and we will be considering anyway—this is not related to the BIS proposal—as we move towards full academisation and our need for a regional presence, whether we want more of our staff out of London rather than in. We are certainly going up to about 480 staff in Sheffield.

Q109 Chair: Just to be clear—we have got you here because you have overlaps of responsibility—are there any joint working teams?

Chris Wormald: There is one joint working team. The joint apprenticeship unit is based there. I have some staff there and so does BIS. Those staff will be staying in Sheffield and will be transferring to the DfE head count. That is part of my expansion. I think it is about 15 posts.

Q110 Chair: So it is an expansion for you, but for the Government as a whole they are not new jobs.

Chris Wormald: Yes. I am also taking on new staff for the Regional Schools Commissioner's office there. As I was saying, we will be considering whether we want to change our balance between London and outside. We will of course look across all our sites, but we are confirmed as staying in Sheffield.

Q111 Chair: Perhaps the question for both of you as Permanent Secretaries is: do you think good quality policy making can be carried out outside London?

Martin Donnelly: I'm very conscious that of the 20,000 staff BIS pay for, a good 18,000 are outside London, and that will continue.

Q112 Chair: My question is: do you think good quality policy can be made outside London?

Martin Donnelly: I am going to have to answer that in a slightly longer way than a yes or no, but I will be quick all the same. Essentially, we have to save £350 million in operating costs. To do that, last summer we stepped back and said, “We are going to have to change our operating model to make it simpler and cheaper.” That means we must focus on a set of business centres, one of which headquarters will be in London. For us, that is how we can make policy work more cost effectively, but we will keep a regional footprint of BIS local—

Q113 Chair: I am sorry, Mr Donnelly, I must interrupt you. I won’t list all the conversations there have been in the House, but there have been many debates and questions in the Business, Innovation and Skills Committee. We are aware of all that background and know a bit about BIS 2020. I am going to ask some quick-fire questions and then bring in Caroline Flint. How many core policy staff are currently based in your Victoria Street headquarters in London?

Martin Donnelly: Broadly 1,600 and another 160 or so in Sheffield, so about 10% across all teams, so not specific teams, but people working in a lot of different teams.

Q114 Chair: So 1,600 of the 2,000 staff at your headquarters in London are policy staff.

Martin Donnelly: And then we link into our finance, HR and headquarters people.

Q115 Chair: So the percentage of the total policy staff in London is—

Martin Donnelly: About 90%.

Q116 Chair: Okay. After BIS 2020, all of them? The LE will be in London? What is your proposal?

Martin Donnelly: Yes, that is correct. All of them will be in London and London will get smaller, so over time not all the posts that shift from Sheffield will be permanent London posts.

Q117 Chair: You talk about post shifting. Can I ask you some questions about the office? Mr Wormald has given us some information that you rent space from the Department for Education. What is the cost of relinquishing? Do you have any costs from getting out of that arrangement with the DfE? Is there any cross-charging?

Martin Donnelly: No, because we are doing this from January 2018—that is the proposal—and, as you say, we are consulting on it, so we will be able to do that without transitional costs. There is a question, over time, of how many of those 240-odd posts will be permanently in London. Our teams are working through that at the moment and there will be disaggregated answers.

Q118 Chair: In terms of actually vacating the office space, you are not going to have a cost at BIS, but might it leave Chris Wormald with a headache in terms of letting out those offices?

Chris Wormald: We don't expect there to be a headache. We will either expand to use the space ourselves or sublet further. We don't envisage there being a problem.

Q119 Chair: What about redundancy payments? If you're going to be moving these staff—frankly if I were a policy officer in Sheffield with a family and I had a nice house on the Abbeydale Road, I probably wouldn't be able to afford to buy a flat in Hackney South and Shoreditch—presumably there will be redundancy payments. What have you factored in to pay for that?

Martin Donnelly: We are aware of that. We have to slim down in any case to meet our BIS 2020 targets. We have just finished one round of voluntary exit schemes, and around 250 people, of whom roughly 50 are from Sheffield and around 170-odd from London, are leaving the organisation at the end of this month. If the proposal goes ahead, we plan to offer another round of voluntary exit proposals to staff based in Sheffield and the other many smaller numbers who are relevant. There will be no compulsory redundancies before May of next year at the earliest, and we would envisage minimising those by helping people to find other jobs. We have an ambitious programme of support for people to do that.

Q120 Chair: My question is: in terms of taxpayer money, what have you factored in to pay redundancy payments to staff from the Sheffield office? I don't know whether you know, but I doubt many will be able to afford to move to London, even if they wanted to.

Martin Donnelly: There will be various options, including early retirement, voluntary exit and so on. We do not have a specific figure because we do not yet know how many people will require compulsory redundancy.

Q121 Chair: You must have done some calculations—hopefully a bit more than a back-of-the-envelope calculation. You must have a calculation for the cost. Anybody who comes in front of us knows the cost implications of losing staff and making redundancies. There is a big cost in year one before whatever savings you imagine, believe or have calculated you will be making. What have you set in your envelope for that cost to cover redundancies?

Martin Donnelly: We have not yet done that because we do not yet know how many redundancies there will be. What I do know is that over time it is likely that around a third of those jobs will not be permanently in London. It is clear that our numbers are coming down and there will be budgetary cover for redundancy payments should we need them.

Q122 Chair: Just to be clear, you are reducing the total number of people who might move from Sheffield by a third anyway, and then the two thirds remaining might be in London. Have I misunderstood?

Martin Donnelly: We are reducing the total number of policy jobs over time. It is not a straight line, because we have a lot of legislative and policy responsibilities at present, and we will want to encourage some people to stay on until the beginning of 2018 or late 2017. There is still a lot of uncertainty about the precise timing of these things, but what is clear is that the number of policy staff will shrink significantly by 2020 as we move to more flexible working.

Q123 Chair: Okay. You said that before. I am not sure what the current situation is in the civil service, but to be clear, if somebody in Sheffield decided that they wanted to relocate to London, is a relocation package offered by the Department or the Government these days?

Martin Donnelly: The precise nature of that would be something we would want to discuss with the trade unions.

Q124 Chair: Is there a mechanism for offering a relocation package? Is that something that would be a cost if someone did decide they wanted to move?

Martin Donnelly: There is a mechanism for covering transitional costs. It would need to be negotiated in detail.

Q125 Chair: Okay, so there could be a cost there. Presumably you don't have any contracts that you have to buy out—or do you? I presume facilities management is provided by Chris Wormald's Department, and you're paying rent for that. What about IT—who pays for any IT facilities? Is that you or the DfE? Is it covered in your rent or is it an extra cost?

Martin Donnelly: I think it's all wrapped up in that.

Q126 Chair: In the rent? Okay.

If you are taking people out of Sheffield and paying salaries in London, at the very least there will be a London weighting. Have you calculated the cost of that? You've told us that you have a clear idea of the number of jobs you are going to be moving to London, even with the shrinkage overall—have you calculated the additional cost of employing staff in London over Sheffield?

Martin Donnelly: This is part of our wider strategy to shrink the total number of people in the Department by working differently. It is true that people in London receive London weighting, but there will be many fewer of them over time as we change how we work together, so it is not a question of a specific dead-weight cost.

Q127 Chair: One of the hidden costs—we are keen in this Committee on looking at efficiency and effect—is that if you lose experience, one policy person newly appointed is not the same as someone with a lot of institutional memory. You will be aware of some criticism of the loss of that institutional knowledge. Have you factored in that hidden cost of bringing people up to speed and learning a subject area? For a start, the personal relationships with many of the organisations they are dealing with are pretty valuable.

Martin Donnelly: That is an important issue, and it is one that we are concerned about, particularly in the further education sector, but also in the higher education sector. We are confident that we can manage that using the time we have got before the Sheffield office will close to ensure that we are transferring experience and knowledge. Also, we are confident that we have got resilience, because we have staff in the SFA and the EFA working for the FE commissioner and staff

in the DfE and in BIS working in these policy areas. We are very focused on managing it as part of the change process.

Q128 Chair: You talk about having all your policy staff based in London. Peter Lauener, where will you be based after all this change?

Peter Lauener: My permanent base is Sheffield, as Chris said, but I spend a lot of time in offices around the country. The EFA has got six offices. There are 16 sites in the SFA. I am a fairly peripatetic civil servant.

Q129 Chair: I understand that it was the executive board that made the decision that face-to-face policy support was one of the drivers behind the proposal. Is that right, Mr Donnelly?

Martin Donnelly: Again, given the cost pressures we are managing, to come up with an effective way of working that gave us the flexibility that we need, we were clear that we had to have our policy people in one place to get the maximum benefit from them and also to manage them most effectively by providing the necessary training, leadership and cross-cutting work.

Q130 Chair: Just to go back to my question, the reason they want them in London is the face-to-face policy making with Ministers—is that one of the drivers?

Martin Donnelly: Yes. The issues that we deal with, whether those are developing policy, advising Ministers, dealing with Parliament, all require—

Q131 Chair: With respect, you do not need to explain what policy officials in Whitehall do.

Martin Donnelly: Sorry. It is easier for us to be efficient with our policy staff in one place.

Q132 Chair: But Mr Lauener is just one of the people who advise Ministers pretty regularly. You must have some face-to-face time with Ministers in your travels.

Peter Lauener: Certainly, and in particular the Minister for Skills.

Q133 Chair: But you are based in Sheffield and travelling. Do you find that to be an impediment to you doing your job?

Peter Lauener: There are days when it feels like an impediment, and then I wake up and have the opportunity to go for a walk in the Peak district, and it feels like a great privilege.

Martin Donnelly: May I briefly add something? Peter is also in charge of a very important delivery arm, and we envisage further education being a business centre outside London, probably based in Coventry.

Q134 Chair: Mr Wormald, you have policy staff based outside London, and you do not have this desire to have face-to-face policy development in your Department.

Chris Wormald: The answer to your original question, from my perspective, is that you can do policy from outside London, but the question is the business driver. What is quite difficult to run—it is not a London/out of London thing—is small policy functions. What we did in the DfE review—it is why we went from 12 sites to six, which was very controversial at the time, and I had similar conversations about decisions to close my Runcorn office and move those staff to Manchester—was create units of sufficient size to have economies of scale and regional management units.

I can see that having 90% of your policy staff in one place and 10% in another is a very different model that is much more difficult than where DfE is, where we have six centres. The straight answer to your question, to be honest, is that you can run policy functions from outside London, and the DfE does, but it is very business-contextual as to what the right model is for each Department.

Q135 Chair: I will bring in Ms Flint in a moment, but speaking as a Shoreditch MP, perhaps Whitehall could be a bit more Shoreditch, where most people do not have a set desk. They work peripatetically. They use new technology to speak to each other, and there are whole businesses that are designed to meet maybe once a week, if that, and they still manage to do very well. Mr Donnelly, have you looked at IT solutions? There was a Minister—I think he won't mind me mentioning this; Mr Liam Byrne—who was renowned for calling in people from across the Department when he was at the Home Office. He lived with a Spiderphone in his office, and many a time I was in meetings with a disembodied voice or two and policy was still made. It didn't seem to hinder policy development, so I am a little sceptical.

Martin Donnelly: Of course you can do it. I have a Spiderphone in my office that we use regularly. If you look at precisely how a company like Vodafone, which we have worked with, do it, they have centralised their headquarters staff in a large single office in Newbury. Other organisations, often very IT-enabled, are doing the same thing. You have to look at the business need, which is the case that we have been looking at very carefully.

Chair: I think we will come back to business need.

Q136 Caroline Flint: Could you go through the functions that are carried out by BIS staff in the Sheffield office? I understand that it is actually focusing on further education, skills and apprenticeships. Is that right?

Martin Donnelly: The largest numbers are in further education and higher education, but we have analysts and staff working in every single BIS team based in Sheffield, or in one of the other 13 places around the country where policy staff are currently based.

Q137 Caroline Flint: But I understand that it does have a locus that is very much focused on FE and apprenticeships.

Martin Donnelly: More than half of our higher education staff are based in London. They are certainly not based in Sheffield. Roughly half of our further education staff are based in Sheffield, but the others are outside Sheffield.

Q138 Caroline Flint: So further education. It sounds a bit odd, given that Mr Wormald has said that that is particularly, although not exclusively, where the work on FE and skills is happening from a DfE point of view. Of course, Mr Lauener is based there as well. In terms of effective policy working, why would you take those people out of that scenario? How does that improve it? Walk around the corner and see Mr Lauener's people, or walk across the corridor and see Mr Wormald's people. Maybe talk to each other, rather than just emailing each other.

Martin Donnelly: You are right that it is very important that they talk to each other. At the moment, we are spending £150,000 a year on hotels in central London and £500,000 a year on train travel to move people around so that they can do that. That is not really sustainable, and it is a tribute to our hard-working staff in Sheffield and elsewhere that they are willing to get up very early in the morning and get back late at night, but as we get smaller it is not the most cost-effective way of doing it.

Q139 Caroline Flint: Could you provide the figures to us on how much of the Sheffield staff's time is spent on trains coming to London and on overnight stays? We can then see how time is used now compared with what you are expecting when some of them come to London.

Martin Donnelly: I think we worked out that about 550 person weeks are spent on travel.

Q140 Caroline Flint: Perhaps you could write to us with figures on the travel time, and maybe hours spent in London, because sometimes there is a smarter way to organise people's time rather than turning up for a half-hour meeting with a Minister and then having to get back on the train again. There are other ways to do it.

Martin Donnelly: I can let you have some of those figures.

Chair: We have votes looming, so we need to be quick in questions and answers.

Q141 Caroline Flint: May I ask how much work you did before deciding to close the Sheffield office to make sure that what we were talking about earlier—the delivery of the further education and skills agenda—was not going to be affected by the change?

Martin Donnelly: We are absolutely focused on delivering those policy agendas, and—

Q142 Caroline Flint: Did you do any analysis of the impact on the area-based reviews that we have just spent some time talking about?

Martin Donnelly: We are confident that we can manage the risks in this process, or we would not be doing it.

Q143 Caroline Flint: Did you do any analysis of how it might impact on the area-based reviews?

Martin Donnelly: We discussed this in the senior management team as one of the risks that we had to mitigate, and we are confident that we are doing so.

Q144 Caroline Flint: Okay, so you had a discussion in which you talked about some of the risks, but you didn't necessarily do any analysis of how it might impact on work in that area.

Martin Donnelly: We have people on our senior management team who are responsible for these areas, and we talk about it regularly.

Q145 Caroline Flint: Do you think the proportion of civil servants based in London has gone up or down in the last five years?

Martin Donnelly: As a whole?

Caroline Flint: As a whole.

Martin Donnelly: I don't know.

Caroline Flint: You don't know. Mr Wormald, do you know?

Chris Wormald: I don't know the numbers off the top of my head.

Caroline Flint: Mr Lauener, do you know?

Peter Lauener: No.

Q146 Caroline Flint: The Institute for Government says that since 2010 the proportion of civil servants based in London has increased from 16% to 18% in 2015. Do you think that is a good thing? Are the two Permanent Secretaries here surprised by that?

Martin Donnelly: What I would say is that, from the perspective of the part of the organisation for which I am responsible, 80% of our people are not in our 1 Victoria Street headquarters, and I want to have the minimum number there needed to do our job. It is absolutely right that we have people all around the country, from Glasgow to Swindon to Darlington to Birmingham, and that will continue, because it is necessary and more cost-effective.

Q147 Caroline Flint: So the offer to people in Sheffield who do not want to take redundancy is to come to London, where, a few years down the road, those jobs will be cut as well. It is not very enticing, is it?

Martin Donnelly: Ultimately, the number of posts that we have will depend on the budget that we are given.

Q148 Caroline Flint: May I ask where the other five centres are likely to be? You said there are going to be six centres, and the hub is going to be London. Where are the other five centres going to be?

Martin Donnelly: Our plan is to have a business-facing centre in south Wales, to have research and institutional funding in Swindon, probably further education in Coventry, higher education student finance—certainly initially—between Glasgow and Darlington, and probably regulation in Birmingham, plus a regional footprint—

Q149 Caroline Flint: So nothing in Yorkshire?

Martin Donnelly: Well, we have a regional footprint, and we have people based in Gateshead.

Q150 Caroline Flint: My husband is from the north-east. I don't think he would describe Gateshead as Yorkshire—so nothing in Yorkshire.

Martin Donnelly: I would have to look in detail at where we are, but one of the main centres would not be in Yorkshire.

Q151 Caroline Flint: Just listening to your locations, my geography would say that there is nothing in Yorkshire. That's true, isn't it?

Martin Donnelly: The reason we have these locations is because that is where we have people at the moment.

Q152 Chair: May we just be clear, though, that there is ostensibly a drive by Government to put jobs outside London, yet there has been a wave of losses from other Departments in Sheffield, and possibly across south Yorkshire—I don't have all the figures. When you are reducing headcount, do you talk to other Departments to see what the cumulative impact is going to be?

Martin Donnelly: I have had conversations with Chris Wormald and with several other Permanent Secretaries who I know employ people around the Sheffield area, to see what we can do to facilitate movements.

Q153 Caroline Flint: Are you aware that there have been 500 jobs lost at HMRC, 400 job losses at the local authority and a further 100 jobs lost at Forgemasters?

Martin Donnelly: I am certainly aware of HMRC slimming down and of Forgemasters.

Q154 Caroline Flint: How many policy people will be working in those other five hubs?

Martin Donnelly: Essentially, none.

Caroline Flint: There will be none.

Martin Donnelly: The idea is that policy will be centralised.

Q155 Chair: So policy is in Whitehall. Whitehall—London—is the driver of policy for a Department that covers the UK.

Martin Donnelly: We have the policy teams in London that we need to do the necessary policy work with Ministers, Parliament and Whitehall. We then connect with the business centres around the country, in order to make sure that our policy and delivery works effectively.

Chair: I am a London MP, so I am quite London-centric, but I think there is a big advantage in remembering that there is a UK-wide approach. There are different nations of the UK, and different regions, with different perspectives.

Q156 David Mowat: Just for the avoidance of doubt, are any of the people that you are moving working on the northern powerhouse?

Martin Donnelly: I am not sure I can give you a precise figure.

Q157 David Mowat: Perhaps you could write to us on that. If they are, I think you will concede that it is an unfortunate optic. We will leave it at that.

You have given us the explanation of this BIS 2020—in fact, you used a lot of “consultancy” words, such as BIS 2020, BIS local, business centres, operating models and all of that. We understand that we are slimming down for BIS 2020, but it is kind of odd that we couldn’t manage to do that without moving a whole chunk of people, as part of that transition, from Sheffield to London. It just doesn’t feel right. I am just giving you an observation on that, as a layman hearing you speak. Do you understand?

Martin Donnelly: Yes, I do understand. The challenge we have had is that, given the size of the change that we are making, we have to step back and look at where we are. Sheffield has become a place that is supporting different bits of policy which is more efficiently done in one place.

Q158 David Mowat: You have used that word and you have talked about hotels. You have used a Vodafone example. There has been some talk of McKinsey helping you with this work, and they may have said, “Right, that is Vodafone, a big, blue chip—a great company. They have centralised; why don’t you centralise and have all these business centres over other parts of the country? That is quite an attractive-looking model.” They may even call it hub-and-spoke or something. I just wonder whether it has to be such an extreme thing and that as part of this BIS 2020, all the guys doing policy—actually there must be a bit of vagueness about policy and implementation; I don’t believe it is black and white—have to come to London. It just seems odd—almost evangelical.

Martin Donnelly: Let me put it the other way round. We are talking about 250 jobs—that is very important for the people involved; I really understand that and I am very concerned about it—out of the 20,000 jobs that we in BIS pay for as a group to deliver what we are being asked to deliver

by Government. We have to look at that in a wider context where there is a lot of slimming down going on across organisations—

Q159 Chair: Slimming down? But you are talking about moving to the most expensive city—

Caroline Flint: Into London.

Martin Donnelly: London is getting smaller as well. Our footprint in London is getting smaller.

Q160 David Mowat: We all accept BIS 2020, and we accept the fact that, as a Department, you have a low percentage of people in London. You have told us that. But it does not necessarily excuse odd behaviour driven by some sort of model that is being implemented to an extreme degree. That is what I am a little bit suspicious of.

Martin Donnelly: I can understand that. If Ministers and Parliament were not here, I would be delighted not to have our policy function here. I would rather live in Sheffield myself. But I do not want to be flippant about this, because it is very important that we do this effectively.

Q161 David Mowat: What is it about BIS that requires you to have all your policy people here, when Education does not?

Martin Donnelly: Chris has explained something of that. The model we are starting with, despite people working really hard, is not helping us to be as cost-effective as we need to be as we get significantly smaller and cheaper.

Q162 David Mowat: Why does that not apply to other Departments, which seem to manage to have policy outside London? Is it because they find different consultants?

Martin Donnelly: This is a matter for us as the BIS board.

David Mowat: Yes, it should be.

Martin Donnelly: A lot of other Departments are doing different forms of slimming down. I can tell you what we are doing and why.

Q163 Chair: Can you just tell us—because the bell has gone, and we are probably going to have two votes, so let us see if we can wrap this up—what the estimated costs of closing BIS's Sheffield office are? I was dismayed to see your response to the BIS Select Committee, which was really wordy but did not tell us anything. You have told us all the stuff that was in that answer, so don't give me that answer again. What is the cost of moving people out of Sheffield, and what is the cost of employing those people in London?

Martin Donnelly: The decision to close Sheffield, if it is confirmed—it is a proposal—is part of a structural reform of our organisation that will help us to deliver £350 million. It is not based on

individual cost-benefit analysis of a static closure, because that is not an appropriate way of looking at this sort of strategic change of how we work.

Q164 Chair: I am just going to seek guidance from the Clerk. I ask the Committee's indulgence—forgive me, witnesses, but we are in the middle of a Division. A number of us are able to stay during this Division; with your permission, we can continue the questioning in your absence, if that is okay. We are quorate, so we can carry on.

You say it is not appropriate, but, if I were your Minister, I would be asking those basic questions, because I would be having colleagues lobbying me. I have had this and I am sure Caroline Flint has had it too. When you are looking at the costs of restructuring—the opportunity cost, the political cost, the cost overall, the budget—those numbers must be there. You had a consultancy looking at the cost of introducing BIS 2020 and advising you on that. What did it tell you about the cost of closing down the Sheffield operation and moving it?

Martin Donnelly: What we are doing is looking now, through the BIS 2020 process, at how we can find £350 million of savings through a range of streams—digital, commercial, simplifying estates, simplifying policy, reducing headcount—and retain a viable organisation. The Sheffield decision is taken in that context. It is not just about the direct static financial cost. It is also the cost of having additional buildings and of having people we have to move around, as well as the fact that we are confident that we can run smaller headquarters by having everybody in one place.

Q165 Chair: You say smaller headquarters, but you have very expensive premises. We heard from the MOJ last week, when we were talking about their numbers of people in London, that they are reducing their floor space and letting out their remaining space. What are you doing with the Victoria Street headquarters, to maximise the benefit of that very expensive building? Is it not £11 million a year in rent? That is a ballpark figure that I have in my memory.

Martin Donnelly: It is relatively competitive for the area, but of course, it is an expensive area. We want to have the minimum number of people there needed to provide effective support to Ministers, and that is what we are working towards. As we get smaller, we will have space to move all of the headquarters people into that building, so we are confident that that model stacks up in the medium term. After 2020-21, we will have to look at this again, because our lease runs out.

Q166 Chair: We will come back to that. Comptroller and Auditor General.

Sir Amyas Morse: I have quite a lot of respect for your intelligence, Mr Donnelly. You must have known that this would play pretty badly. Did you take that into account? Did you discuss that when you were making the decision? I am sure it is not a surprise to you that this is a sensitive decision. Notwithstanding your excellent, extremely clear and cogent defence of it, you must have anticipated that these points would be made to you. Did you?

Martin Donnelly: I am conscious that it is my responsibility, as the permanent secretary, to run a sustainable Department.

Sir Amyas Morse: I am not arguing with that; I am just asking you for a little bit of peripheral information. Did you anticipate that people would be sensitive about this decision?

Martin Donnelly: There are different levels of sensitivity. I did expect—I don't know what you want me to say to this, Sir Amyas. I didn't become a civil servant to go around closing offices. If I thought there were other ways of doing it, believe me, that is what I would recommend, but given the constraints we are in, that is what I think we have to do.

Q167 Chair: You are still going through a consultation. Can we just be clear about that? McKinsey have advised you. Did they advise you to close? You said that it was an executive board decision, so was that informed by the McKinsey work, or was it an executive board decision and you then advised McKinsey to tell you how to do it?

Martin Donnelly: It was an executive board decision on the basis that we have to find some £350 million on operating cost savings by 2020.

Q168 Chair: We don't understand why that is cheaper to do in a very, very high-rent building in London when you have very good people with institutional knowledge who are cheaper to employ in Sheffield. You haven't given us any figures.

Martin Donnelly: It is about the efficiency with which we can work when we have people in one place, and therefore—

Q169 Chair: So those efficiency savings are worth the extra cost of the rent, the salaries and the lost skillsets?

Martin Donnelly: If they weren't, I would not have anybody in London. Yes. We need to do some of work—

Chair: Maybe it is time we politicians lived without seeing people face to face.

Q170 Caroline Flint: I am quite interested in the efficiency saving side of this. You said you are going to provide us with information about the travel costs and hotel costs, but I am interested in this decision. Do you envisage that all the policy people who will be based in Victoria are going to talk to each other more?

Martin Donnelly: Yes. I think it is very important—

Q171 Caroline Flint: Really?

Martin Donnelly: Yes. It is how we manage policy effectively.

Q172 Caroline Flint: So you are going to have an email purge, are you?

Martin Donnelly: It is also how we move people around more flexibly between teams, whether it is from Europe to higher education or to apprenticeships—

Q173 Caroline Flint: So you are going to basically merge teams, are you?

Martin Donnelly: We will have a much more flexible teamworking model. We are able to manage people. We are able to train them more effectively in one place.

Q174 Caroline Flint: We are not really a big country, compared with many other places. I travel back and forth to Doncaster, which takes an hour and 45 minutes. I see quite a few people who commute there from the private sector as well. Why could you not think about merging teams, and maybe getting people to pick up the phone and speak to each other rather than just send thousands of emails, but move more people out of London to Sheffield to fulfil that function?

Martin Donnelly: It is cheaper—

Q175 Caroline Flint: The number of civil servants who actually get in front of Ministers—I used to find it very effective just to pick up the phone. When I got a submission and there was a civil servant's name on it, if I didn't understand it I would just pick up the phone—they would sometimes be surprised. I would say, "I don't quite understand. Could you explain to me where these figures come from?" and I found that very useful. Why could you not move people out? I am all up for different ways of working; that is a different way of working—picking up the phone.

Martin Donnelly: I think that picking up the phone is very important. It works less well if there are several of you. It works less well if you are trying to have—

Q176 Caroline Flint: You can't have a phone conference?

Martin Donnelly: You can, but we all know that whether it is briefing people in the House of Commons or trying to pull together an informal team across Whitehall, it is not as easy to get people on the end of a phone and be as effective.

Caroline Flint: It's not that hard.

Chair: It can be a requirement built into the job that in core working hours, you have to be able to be on Skype or FaceTime.

Q177 Caroline Flint: The key thing for Ministers is that they make it clear to the civil servants what they need from a briefing, and that they get the briefing in good time so that they can feed back comments. All of that can be done without any face to face.

Martin Donnelly: Yes it can; it can on occasion, though, be more effective to do it face to face.

Q178 Chair: On occasion?

Martin Donnelly: But it is not just about Ministers. It is about all of the policy function working effectively together; and I would emphasise, again, the vast majority of our staff will continue to be outside London. We will shrink our footprint in London.

Q179 Chair: So to pick up Ms Flint's point, why don't you just put all the policy staff in Sheffield? It would be cheaper. You could have good video conferencing. Ministers ought to be able to modernise their ways of working, if they are the brake—I am not suggesting the individual Ministers in your Department currently are the brake. Actually, the Business Secretary is probably really up for modern ways of working.

Martin Donnelly: Professionally I have to say to you that I do not believe we could be as effective and get smaller if we were not based physically where we are, given the ministerial, parliamentary and policy needs of Government, with those officials.

Q180 Deidre Brock: With regard to the centres of excellence, answers to the BIS Select Committee, and as the Minister Anna Soubry already informed the House, suggested eight or nine centres of excellence. One of the ones that is mentioned is higher education student finance services, initially in Glasgow and Darlington, but to be reviewed over time. Can you tell me a little bit about that, because I just wondered how that would differ from the Student Awards Agency for Scotland, which is a Scottish Government agency?

Martin Donnelly: At the moment the Student Loans Company has a significant number of people in Glasgow and Darlington. We have no plans to change that, but obviously it is something that people will keep under review.

Q181 Chair: So you don't mind having a split team there, but you do with the policy team.

Martin Donnelly: That is a delivery organisation, and depending how we manage the process of going digital we do need to look at the—

Q182 Chair: Some might say it is a bit of a false divide between a delivery and a policy, because actually good policy officials are hopefully thinking about delivery and they need to understand the nature of the UK. I have to say I was in a Department where I dealt with all of the UK; I visited every nation of the UK and learned a lot from the immigration teams, the passport teams, in my case—I was in the Home Office—because they really understood the granular nature of their communities, and frankly there was a very London-centric view in Whitehall, which, even as a London MP, alarmed me.

Martin Donnelly: And it is important to challenge that. People do not just sit in 1 Victoria Street. They can and do move around the country and engage with stakeholders. That is what we do.

Q183 Deidre Brock: I just wondered how many people currently work in Glasgow, Mr Donnelly.

Martin Donnelly: They would essentially be working for the Student Loans Company and I think it is about 1300², but I will check the figure and let you know.

Q184 Deidre Brock: I am slightly concerned about the “to be reviewed over time”. Do we know when or how, or what will influence that decision?

Martin Donnelly: In the short run our concern is to support the Student Loans Company in modernising its IT structure. There are also some changes of management going through the system; that is our priority because the service to students has got to be the No. 1 priority and will continue to be so. I think the point the Minister was making was simply that over time, and as we continue to make our services more digital, we will need to look at where the most efficient footprint is.

Q185 Chair: I have to say—we are going to have to wrap up because the bell is going, but Mr Donnelly you have not given us a single figure. You are closing this in order to save money—closing one office and moving everyone to London, a more expensive location—and you cannot give us a single figure on what the savings will be. Surely if you had done your work you would know the costs—to reduce the numbers, what the savings target will be from each closed office. I just don’t understand how you cannot give us numbers.

Martin Donnelly: It is about cost; it is also about efficiency. I have told you that we will be shrinking the policy function significantly. We can do that more simply and more effectively in one place and that produces savings.

Q186 Chair: I have to say, one of the reasons you have given in one of the answers is that career progression is made easier. It is career progression for people in London. If you are a policy official in another part of the country where is the career progression? I am beginning to wonder across Whitehall if this is going to be the way forward.

Martin Donnelly: That is a very important point that we are discussing with the Cabinet Office—how we manage people whose careers are not in London. That is also very important.

Q187 Caroline Flint: You give the perception that to do any brain work you have got to come and work in London.

Martin Donnelly: No, I have not said that.

Q188 Chair: We are disappointed that we still have no figures. This is now the second Select Committee you have appeared in front of, and you cannot give a single number about what the cost savings will be of closing the Sheffield office. Yet the upheaval, the opportunity cost, the loss of experience and the actual cost of giving people London salaries in an expensive building seems to us just not to stack up; so can you give us any assurance on numbers?

² Figure clarified in writing 01/04/2016

Martin Donnelly: This is one part of a process of delivering £350 million of savings by moving to a new business model.

Q189 Chair: And you cannot tell us what percentage of those savings are coming from Sheffield.

Martin Donnelly: Since the number of people working in policy will decline significantly over time, the merger of Sheffield with London in policy terms is a key driver of that saving.

Chair: We would say it would be cheaper to put them all in Sheffield and find modern ways of working. I am sure Ministers, in order to save money, would be willing to change their ways of working. I think we are going to have to finish there because we have a vote. We are disappointed. We will be writing a letter to you on both of these issues. Thank you very much for coming along.