



House of Commons
Innovation, Universities,
Science and Skills Committee

**DIUS's Departmental
Report 2008**

Third Report of Session 2008–09

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Report, together with formal minutes

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The Innovation, Universities, Science & Skills Committee

The Innovation, Universities, Science & Skills Committee is appointed by the House of Commons to examine the expenditure, administration and policy of the Department for Innovation, Universities and Skills.

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Summary

DIUS, the Department for Innovation, Universities and Skills, was set up on 28 June 2007 with responsibilities to improve science, research and innovation and to foster economic development. On the evidence of its first *Departmental Report* we consider that it has not yet found its feet and it is too early to say whether DIUS will achieve the ambitious objectives set for it by the Prime Minister.

The *Departmental Report* itself was less than satisfactory. It relies too much on jargon and promoting a positive tone, we suspect in part, because the results of DIUS's work may take years, if not decades, to realise. For a department that takes pride, with some justification, in taking account of the views of its "customers" we were surprised that the *Departmental Report* was not more informative or helpful to the reader. A more concise report written in plain English with clearly presented and independently verified statistics would aid the scrutiny of DIUS in future years.

With "innovation" in its title we had high hopes of DIUS demonstrating innovative methods of operation. We were disappointed in the examples of innovation in its own operations DIUS cited: use of new social media, "hot-desking" and remote working, which for many are far from new. We also examined how DIUS balances its responsibilities for promoting, and providing resources for, innovation outside the department with its duty to ensure that taxpayers' money is not put at risk or wasted. This is a crucial issue as innovative companies face a shortage of capital during the economic downturn and government steps in to bridge the shortfall. We call for a clear statement from DIUS explaining how it is going to manage innovation and financial risk.

We had frustrations in scrutinising DIUS's financial management. The setting up of DIUS as a new department has made it difficult to see trends in the administrative costs of running the department as DIUS's costs cannot be easily compared with its predecessor departments. Nor are we yet clear how £1.5 billion in efficiency savings that DIUS has promised to make by 2010–11 are going to be generated. On the spending programmes that DIUS manages, we noted what may be an emerging pattern of underused resources from further education and skills programmes going to meet spending pressures from higher education. We call for better information on the resources going to, and taken from, the Government's flagship skills programme *Train to Gain*.

We also reviewed the work of the new Government Chief Scientific Adviser, Professor Beddington, who took up his post in January 2008. We noted a change in his approach compared with his predecessor. Some of the changes he is making—for example, the speeding up of departmental science reviews—we welcome. We can also see advantages in his "collegiate" approach and desire to work within the Whitehall machine. It is too early to see the fruits of this approach but we have some concerns—based on Professor Beddington's responses on our questions about homeopathy and the reclassification of cannabis—that the price of this new approach may be too high. There is a risk that the customary, strong public voice from the Government Chief Scientific Adviser advocating policy based on evidence-based science will become muted.

1 Introduction

Departmental Report 2008

1. DIUS, the Department for Innovation, Universities and Skills, is a new department which was set up on 28 June 2007. Its creation led to considerable upheaval within Whitehall: the breaking up of the Department of Trade and Industry (DTI)¹ and the Department for Education and Skills (DfES), in order to draw together science and innovation, universities and skills into one department. The Prime Minister had a clear purpose for the change:

The new Department will be responsible for driving forward delivery of the Government's long-term vision to make Britain one of the best places in the world for science, research and innovation, and to deliver the ambition of a world-class skills base.²

We recognise that any reorganisation within Whitehall will inevitably cause considerable upheaval and that it will take time to get a reorganised department fully functioning. This Report examines the operation and work of DIUS since it came into existence 18 months ago and whether it is making progress towards the Prime Minister's goals. It also examines the work of the Government Chief Scientific Adviser, who is Head of Science and Engineering in government and Head of the Government Office for Science, which was created in July 2007 and is based in DIUS.³

Our inquiry

2. The starting point for our scrutiny is DIUS's first departmental annual report, *Investing in our Future: Departmental Report 2008*,⁴ published in May 2008. Our inquiry has not followed the customary pattern of a call for evidence, the sifting of written evidence and oral evidence sessions with interested parties concluding with Government ministers and officials. To adopt this approach and to carry out such an inquiry comprehensively for a department like DIUS with a broad range of responsibilities and with a budget of £18 billion would be impracticable. Instead, drawing on our experience as a select committee scrutinising DIUS since we were set up in November 2007 we have focussed on the *Departmental Report*, and to a lesser extent other documents produced by DIUS such as its

1 In June 2007 the Department of Trade and Industry and Department for Education and Skills became (1) the Department for Business, Enterprise and Regulatory Reform, (2) Department for Innovation, Universities and Skills and (3) Department for Children, Schools and Families; see also para 25 below.

2 DIUS, *Investing in our Future: Departmental Report 2008*, Cm 7392, May 2008, p 13

3 DIUS and HM Treasury, *Science and Innovation Investment Framework: Annual Report 2008*, December 2008, para 1.11

4 DIUS, *Investing in our Future: Departmental Report 2008*, Cm 7392, May 2008 (hereafter the "Departmental Report")

2007 and 2008 Autumn Performance Reports⁵ and estimates memoranda.⁶ We put written questions to DIUS⁷ and took oral evidence at three sessions from: (1) the Permanent Secretary, Ian Watmore, and senior officials—Bill Dickinson, Director General, Finance and Corporate Services, and Zina Etheridge, Director, Strategy and Communications, at DIUS; (2) the Secretary of State for Innovation, Universities and Skills, Rt Hon John Denham MP, and Ian Watmore; and (3) the Government Chief Scientific Adviser, Professor John Beddington.

3. In carrying out our task we set three objectives:

- a) to produce an analysis of, and commentary on, the Departmental Report;
- b) to comment on DIUS's and the Government Chief Scientific Adviser's work since DIUS was established in June 2007; and
- c) to flag up issues to which we as a Committee may wish to return.

4. We record our thanks to staff in DIUS and the witnesses for responding to our inquiry and to our written and oral questions.

Our Report

5. The focus of our inquiry is how DIUS and the Government Chief Scientific Adviser have set about their work and how they are performing. Our point of departure is DIUS's *Departmental Report* and we review its form and content in chapter 2. We examine, in chapters 3 and 4 the setting up of DIUS and the financial management of the department. Chapters 5 to 7 examine the delivery of Government policy in innovation, further education, skills and higher education as well as scrutinising the measurement of progress against targets. Chapter 8 looks at science and the work of the Government Chief Scientific Adviser.

5 DIUS, *Autumn Performance Report December 2007*, (hereafter the "2007 Autumn Performance Report") DIUS, *Autumn Performance Report December 2008*, (hereafter the "2008 Autumn Performance Report"); see Ev 100.

6 HM Treasury, *Central Government Supply Estimates 2007–08 for the year ending 31 March 2008 Winter Supplementary Estimates and New Estimates*, HC (2007-08) 29, pp 507-26, HM Treasury, *Central Government Supply Estimates 2007-08 Spring Supplementary Estimates for the year ending 31 March 2008*, HC (2007-08) 273, pp 105-23, HM Treasury, *Central Government Supply Estimates 2008-09 Main Supply Estimates*, HC (2007-08) 479, pp 142-60; see Ev 90, Ev 94, Ev 98, Ev 108 and Ev 110.

7 Ev 67, 74, 100

2 Style and content of the Departmental Report

Introduction

6. Guidance to departments on the preparation of departmental annual reports in 2008 was issued in December 2007 by the Treasury. It stated:

Departmental reports are the main vehicle for departments to explain to Parliament and the public how they are organised, what they are spending their money on, what they are trying to achieve, and how they are performing.⁸

The reports should continue to be both forward and backward looking, setting out plans and information about performance, and drafted to present a clear picture of the department's aims, activities, functions, and performance, linking performance delivered over the past year with resources consumed.⁹

Style of the Departmental Report

7. During the evidence session with officials in DIUS we selected at random and read the following extract from the *Departmental Report* to Mr Watmore:

An overarching national improvement strategy will drive up quality and performance underpinned by specific plans for strategically significant areas of activity, such as workforce and technology. The capital investment strategy will continue to renew and modernise further education establishments to create state of the art facilities.¹⁰

Mr Watmore was unable to explain the meaning of the passage. He conceded that “documents written by people in senior positions can often be very inaccessible to the public” and he undertook that for next year DIUS would “get the plain English people in earlier”.¹¹

8. The inaccessibility of the prose was not the only problem we encountered. It was compounded by the use of jargon-riddled phrases, assumptions backed-up with no clear evidence but which appeared to be designed to provide a positive tone to the Report, and euphemisms deflecting likely failure. Here are some examples we noted:

- a) “creating a vision of success”;¹² This is the first heading in the first substantive chapter of the *Departmental Report*.

8 HM Treasury, *Public Expenditure System: Guidance for the Spring 2008 Departmental Reports*, PES (2007) 21, 21 December 2007, para 5 [paper deposited in the House of Commons Library]

9 HM Treasury, *Public Expenditure System: Guidance for the Spring 2008 Departmental Reports*, PES (2007) 21, 21 December 2007, para 1 [paper deposited in the House of Commons Library]

10 Q 27; the extract comes from the *Departmental Report*, p 45.

11 Q 27

12 *Departmental Report*, p 13

- b) “For our customers, there are three particularly important ways in which we can demonstrate the success of the [Departmental] blueprint. These are first to develop true insight into their needs and requirements...”;¹³ The phrase “true insight” begs the question: what sort of insight did the Government and the former DfES have of these “customers” previously? (We consider further the use of the term “customer” at paragraphs 9 and 10 below).
- c) “challenging growth trajectory to 2010”;¹⁴ This phrase is used in a passage reporting on the prospect of achieving the target of “Reducing the number of adults in the workforce who lack Level 2 qualifications”. We construe it to mean that the likelihood of achieving the target is slim.
- d) “Our reputation for innovative policy-making approaches, fresh policy insights, bold points of view”.¹⁵ The effect of this phrase is to add weight to assumptions about DIUS's innovative approach, which, as far as we can see, has yet to be established.

Terminology

9. Many terms used in the *Departmental Report* come from business and the private sector. We raised two examples with Mr Watmore and DIUS officials: “customers”; and the DIUS “brand”. The term “our customers” is used 19 times in the *Departmental Report* and DIUS appears to want those who use its services to see themselves as its customers. The Report explained that to:

ensure that we have a shared understanding of our customers' needs, we are producing Customer Intelligence Packs for each of our major customer groups. This will provide the common foundation for developing the specific insights we will need for each area of policy, service or communications. Our policy and communications teams will build these specific insights in the planning stages of their work, using methods like customer experience or journey mapping.¹⁶

10. We think this passage means: in drawing up policy DIUS takes account of the views of those who will be affected. This interpretation was borne out by the reply DIUS gave when we asked about the packs. Ms Etheridge, Director, Strategy and Communications at DIUS, explained that “to take quite a simple example [...] if you are designing a policy where you are trying to get support for training to employers then you can design a much better policy if you know what employers are looking for and what they want”.¹⁷ Such an approach is commonsense. We had doubts, however, about the use of the term “customers”. A customer in common usage is someone who having weighed up choices on offer decides to spend money on goods or services. We questioned whether the concept fitted well with DIUS's main activities, many of whose “customers” receive money from DIUS and cannot take their business elsewhere. Mr Watmore explained:

13 *Departmental Report*, p 13

14 *Departmental Report*, p 91

15 *Departmental Report*, p 14

16 *Departmental Report*, p 18

17 Q 20 [Ms Etheridge]

One of the criticisms [...] of Whitehall departments is they are not quite sure who their customers are, what are they doing it for. In our case, is it for the minister, is it for a university, is it for the college sector? We took the view that the customer base was individual learners, adult learners and businesses, businesses as employers and businesses as innovators in the economy.¹⁸

When we pressed Mr Watmore on the term “customer” he accepted that it might not be correct¹⁹ and considered that “maybe ‘client’ for us is not a bad word”.²⁰

11. In his introduction to the *Departmental Report* Mr Watmore cites as evidence of progress “developing an increasingly strong DIUS ‘brand’”.²¹ During the evidence session Mr Watmore explained:

One example of being new that is difficult is on day one all of your staff are coming from different parts of Whitehall and they have all got different backgrounds and different understandings. On the other hand, the advantage of that is you can move them all to something new and different if that is what you want. In our particular case we laid out our vision for the Department on one piece of paper, our so-called blueprint, and have tried to get all of those pieces of the blueprint now in action. Just to pick two or three examples of what we mean by the brand. [...] We have tried to make our Department very much focused around our tagline [...] of investing in our future. We thought that phrase resonated with everything that we did in the Department: investment, a cost in for reward out, not necessarily in the same timeframe because quite often what we are doing is putting cost into a system to get the benefits some years later, and often it can be decades later, so it is a true investment cycle. Secondly, it is in “Our Future”. “Our Future” is a phrase that we are using in our advertising campaign for things like Train to Gain and the Skills Agenda.²²

12. The Oxford English dictionary defines *brand-image* as “the impression of a product in the minds of potential users or consumers” and *brand awareness* as the extent of “consumer familiarity with the name, image, or distinctive qualities of a particular brand of goods or services”.²³ A brand is therefore a symbolic embodiment of the information connected to an organisation creating associations and expectations about its products and services. We have no doubt that it is sensible for the senior management of DIUS to ensure that those working for the new department work together in pursuit of a common set of aims and objectives. In addition, we accept that the attributes of a brand may assist the Learning and Skills Council or *Train to Gain* which have a more narrowly defined role or function than DIUS. But we were not convinced that what is an internal process to DIUS needs to be projected as the DIUS brand outside the department.

18 Q 20 [Mr Watmore]

19 Q 22

20 Q 23

21 *Departmental Report*, p 5

22 Q 8

23 *Oxford English Dictionary*, September 2008

Conclusions

13. We acknowledge that some parts of the *Departmental Report* are informative and we quote them later in this Report.²⁴ Other parts are nearly impossible to read and understand. The *Departmental Report* is especially frustrating when addressing the broader objectives of DIUS and setting out how the Department is going to meet them and measure progress. It may be that this is a product of uncertainty as DIUS feels its way towards the very ambitious objectives that the Prime Minister has set. It may also be that the imprecise language fills a vacuum because, as Mr Watmore noted, the effects of decisions and investment made now may not be realised for years, even decades.

14. We conclude that the DIUS *Departmental Report* is by most standards a poor read. It is written in an impenetrable style and is peppered with jargon, unsupported assumptions and claims designed to promote DIUS. It does not meet the terms of the Treasury's guidance to present a clear picture of the department. We recommend that DIUS's 2009 departmental report be written in plain English, be shorter than the 2008 Report and use terminology appropriate to its functions.

Use of statistics

15. We asked a number of questions—both oral and written—about the statistics in the *Departmental Report*. We are grateful for, and on the whole satisfied with, the written replies provided by DIUS. The same could not be said of the presentation of the statistics themselves in the main body of the *Departmental Report*. The Treasury Guidance on departmental annual reports advises that when reviewing progress against targets “clear, transparent, and comprehensive reporting is essential”.²⁵ Our concerns can be illustrated with an example. The *Departmental Report* stated that

Progress is being made towards achieving fairer access to higher education: between 2002/03 and 2005/06, the gap in participation among young people from higher and lower socio-economic classes closed by 3.5 percentage points. Table 1 [*reproduced below*] shows the proportion of young UK-domiciled entrants from state schools and disadvantaged groups to full-time, first degree courses at universities in England.²⁶

24 For example, see below, paragraphs 93 and 98.

25 HM Treasury, *Public Expenditure System: Guidance for the Spring 2008 Departmental Reports*, PES (2007) 21, 21 December 2007, para 8 [paper deposited in the House of Commons Library]

26 *Departmental Report*, p 69

Table 1

Young UK-domiciled entrants from state schools and disadvantaged groups to full-time, first degree courses at universities in England (1997-98 to 2005-06)				
	State schools	Lower social classes (IIIM, IV, V)*	Lower socio-economic classes (4-7)*	Low participation neighbourhoods
1997-98	81.0	24.7	N/A	11.4
1998-99	84.4	24.9	N/A	11.6
1999-00	84.1	25.1	N/A	11.7
2000-01	85.0	25.3	N/A	11.8
200102	85.2	25.5	N/A	12.4
2002-03	86.4	N/A	27.9	12.5
2003-04	86.1	N/A	28.2	13.3
2004-05	85.9	N/A	27.9	13.1
2005-06	86.9	N/A	29.1	13.5

Source: Performance indicators in higher education (published by the Higher Education Statistics Agency)
 *The national statistics socio-economic classification was introduced in 2002-03 to replace the social class groupings. The two classifications are not directly comparable.

16. We set out the evidence on the 3.5% claim at length because achieving fairer access to higher education is a key objective of the Government and to highlight the problems we encountered in DIUS's use of statistics. Table 1, which appears on page 69 of the *Departmental Report*, neither mentions higher socio-economic classes nor does it identify the closure of a 3.5% gap. (Nor does the more detailed data at Annex 1 of the *Departmental Report*, which reports performance against PSA targets.)²⁷ Subsequently in a written memorandum,²⁸ DIUS explained that the claim was based on the Full-time Young Participation by Socio-Economic Class (FYPSEC) measure which provided three figures for each year:

- The proportion of English-domiciled 18, 19 and 20 year olds from the top three socio-economic classes, who participate for the first time in full-time higher education courses at UK higher education institutions and English, Scottish and Welsh further education colleges.
- The proportion of English-domiciled 18, 19 and 20 year olds from the bottom four socio-economic classes, who participate for the first time in full-time higher education courses at UK higher education institutions and English, Scottish and Welsh further education colleges.

27 *Departmental Report*, pp 91-93; see also below, chapter 7, which considers wider participation.

28 Ev 79

- The gap between these two participation rates.

At the time of publication of the *Departmental Report*, FYPSEC figures were available for 2002/03 to 2005/06 as follows:

Table 2

	2002	2003	2004	2005
Participation rate for NS-SECs 1, 2, 3				

In its memorandum in November 2008 DIUS was able to update the figures:

Since the *Departmental Report* was published, FYPSEC has been revised according to changes in underlying datasets (including revisions to the population estimates and the Labour Force Survey by the ONS)³⁰ and updated to 2006/07 as follows:

Table 3

	2002	2003	2004	2005	2006
Participation rate for NS-SECs 1, 2, 3					

17. Turning back to Table 1 in the *Departmental Report*, DIUS explained that the performance indicators in the Table were “not intended as evidence for the 3.5 percentage points claim, but as supplementary evidence of progress in widening participation”.³² It explained that the Table “showed the proportion of young, UK domiciled entrants from state schools and disadvantaged groups to full-time first degree courses at universities in England” and that the key difference between FYPSEC and the Performance Indicators was as follows:

- FYPSEC provides the proportion of the English young upper/lower socio-economic class populations who participate in higher education: i.e. a population basis. This allows the measure to account for changes to the socio-economic breakdown of the underlying population of England.
- The Performance Indicators show the proportion of UK-domiciled young full-time first degree entrants who are from lower socio-economic classes, i.e. a student

29 The difference recorded between 2002 and 2005 is 3.6%; although DIUS did not supply a footnote as it did for Table 3, it is assumed that due to rounding the correct figure is 3.5%.

30 Office for National Statistics, the executive office of the UK Statistics Authority

31 DIUS pointed out that “the figures suggest a narrowing of the gap of 6.0 percentage points rather than 6.1 percentage points. This is due to rounding and the correct figure is 6.1 percentage points.” (Ev 80)

32 Ev 80

basis. This takes no account of the socio-economic breakdown of the underlying population, nor any year-on-year changes to this.³³

18. When we put the question to DIUS at the oral evidence session, we were mindful that Professor Sir Martin Harris, Director of Fair Access to Higher Education, had said in evidence to us in June 2008 that “broadly speaking, my understanding is that, after a dip in the year when fees were being talked about, [...] the numbers of applicants and students admitted has edged up slightly each year and that within that the proportion in the lowest social groups has stayed stable.”³⁴ Figures from UCAS³⁵ appear to bear this out. We therefore put these figures—set out in Table 4 below—to DIUS.

Table 4

Socio-economic classification of candidates accepted to higher education degree courses % of accepted applicants from socio-economic group							
	1	2	3	4	5	6	7
	Higher managerial and professional	Lower managerial and professional	Intermediate	Small employers and own account workers	Lower supervisory and technical	Semi-routine	Routine
2002	23.3%	31.2%	15.6%	7.3%	4.6%	12.5%	5.6%
2003	22.7%	31.3%	15.2%	7.4%	5.0%	12.9%	5.5%
2004	22.5%	31.6%	15.2%	7.3%	4.8%	13.0%	5.5%
2005	21.7%	31.4%	15.2%	7.4%	4.8%	13.9%	5.6%
2006	22.4%	31.2%	14.5%	7.7%	4.8%	13.5%	5.9%
2007	22.9%	31.1%	14.3%	7.6%	4.7%	13.6%	5.8%
<i>Note:</i> Proportion based on home accepted applicants with a known classification <i>Source:</i> UCAS annual datasets							

19. DIUS responded that the

UCAS figures provide a different perspective [...] looking at the socio-economic breakdown of the higher education applicant group. But [...] this does not take account of changing size of socio-economic groups.

No single background type (e.g. socio-economic class, home area, school type, income) can comprehensively convey that somebody is from a deprived background. Differences in coverage of higher education data sources have led to the production of a number of different measures and indicators of progress with widening participation, each focusing on a particular background type (e.g. socio-economic

33 Ev 80

34 Oral evidence taken on 2 June 2008, HC (2007–08) 598-i, Q 34

35 Universities and Colleges Admissions Service

class) and a particular group of students (e.g. young full-time). Therefore using a basket of measures/indicators gives us more confidence in the overall story being told.³⁶

Conclusions on the presentation and use of statistics

20. If we start with the text on page 69 of the *Departmental Report* the informed reader would expect the claimed 3.5% improvement in participation in higher education to be justified in Table 1, which immediately follows the claim. Instead, the reader is left baffled. In our view it is neither tenable nor helpful to claim as DIUS has done that Table 1 was “not intended as evidence” for the 3.5% claim, but as “supplementary evidence of progress in widening participation”. We consider such an approach to be unacceptable. **We recommended that where a statistic is cited in the *Departmental Report*, the evidence to support the statistic be set out in full, if necessary in a footnote. We also recommend that in the material supporting the statistic DIUS provide information on the quality of data used, the source and the baseline and also provide a commentary on past performance.**

21. The exchange raises a broader question about the use of statistics: how statistics are used to measure the effectiveness of government policy—in this instance, how the participation of socio-economic groups in higher education is measured. It may well be that the approach adopted by DIUS is the most helpful. But other approaches are possible, such as the use of UCAS figures, and a key authority, the Director of Fair Access, told us that there had been no change. The danger is that departments will simply choose the dataset that fits their conclusions unless they set out in advance of seeing the data the metrics they are going to use to ensure consistency. In our view the way to resolve such issues is to introduce independent review of the figures cited in the *Departmental Report*. **We therefore recommend that future departmental reports are reviewed before publication by either the UK Statistics Authority or by an independent person such as an academic statistician, whose opinion on the statistics is included in the report and that the appropriate metrics are specified in advance.**

DIUS spending on services by country and region

22. Finally, we noticed that Table 7 of the *Departmental Report* showed that “total identifiable Departmental spending on services by country and region”³⁷ fell in every English region, except London, between 2006–07 and 2007–08 and we asked DIUS for the reasons. When it replied DIUS explained that in

looking to respond to the Committee’s question, we identified inconsistencies in the allocation of spend in compiling the three Country and Regional Analysis (CRA) tables in the Departmental Annual Report. These affect all three CRA tables. The key issue related to the allocation of spend by the Learning and Skills Council from 2007–08. Addressing this means that DIUS spend in all regions increased between

36 Ev 80

37 *Departmental Report*, p 106

2006–07 and 2007–08, and the movement of London spend is now in line that of the country as a whole.³⁸

23. DIUS supplied revised tables which we have reproduced:³⁹ the total figures for England for 2008–09 have been corrected from £14 billion to £16 billion. **We commend DIUS for owning up to the error in three tables in the *Departmental Report* setting out country and regional data and for supplying corrected tables. But we must put on record our concern that significant errors in the three tables setting out the country and regional analyses were not noticed before publication.**

Capability Review of DIUS

24. As a postscript to this issue, we note that the *Capability Review* of DIUS, published on 11 December 2008, found that, whilst “analytical capability is strong in some areas [in DIUS], it is relatively undeveloped in others, and staff and stakeholders within Whitehall query whether there is a consistent method for ensuring that policy is evidence-based.”⁴⁰ **We recommend that DIUS, as a matter of urgency, put in place a consistent method for ensuring that the policy it develops is soundly based on evidence.**

38 Ev 81

39 Ev 82-86

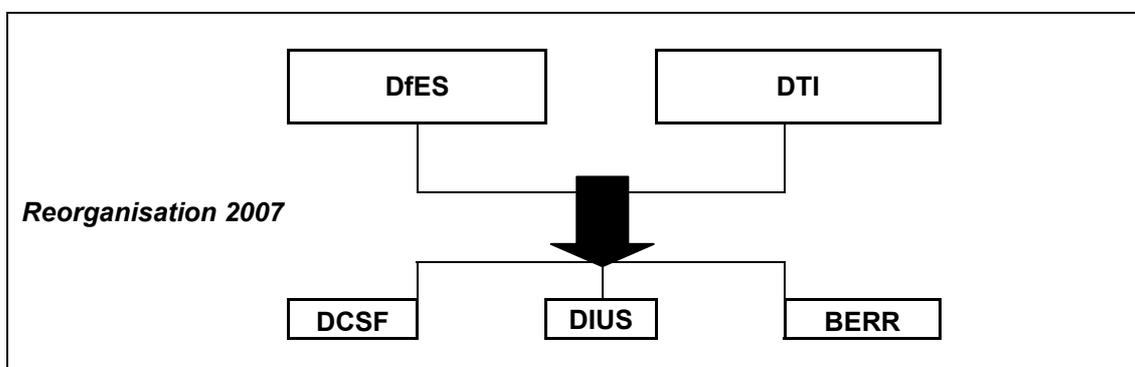
40 Cabinet Office, *Civil Service Capability Reviews Department for Innovation, Universities and Skills: Baseline Assessment*, December 2008, p 10; see also below, para 45 and following.

3 Setting up DIUS

Machinery of Government changes

25. DIUS is a new department created in June 2007 as a result of a restructuring of government departments within Whitehall—known as a Machinery of Government change. The change combined the parts of the Department of Trade and Industry (DTI) dealing with science and innovation with those parts of the Department for Education and Skills (DfES) dealing with higher and further education and skills. The remaining parts of DfES focussing on children and those under 19 years of age became the Department for Children, Schools and Families (DCSF) and the remaining parts of DTI became the Department for Business, Enterprise and Regulatory Reform (BERR). Table 5 below summarises, in simplified form, the changes made in June 2007.

Table 5



26. The Secretary of State explained his approach to running DIUS after the reorganisation:

some people might say, “You have got new functions and a new role, perhaps you should have new director generals, new structures and all the rest of it”. We took a very conscious decision not to do that and the benefit of that last year was that the main delivery parts of the organisation, I think most people say, continued to function and function well and to show improvements in their areas of activity. Where you inevitably lag behind is that some of your core central services and support are not in place on day one. You do not have an office building on day one, so your staff are scattered between different locations, you are borrowing other people’s IT systems [...] It is very difficult to see how these things can be done differently, given that there is always a day on which the new department is announced[.]⁴¹

We note that the *Capability Review* of DIUS published in December 2008 found that the “senior leadership team needs to develop a strategy for DIUS that brings out the right linkages across the Department, and helps develop policy in the right ways to deliver the

headline vision” and that DIUS “needs to use the strategy to improve internal linkages across the Department.”⁴² This is an area we may return to in 2009.

Costs of the machinery of government changes

27. In a note to DIUS's audited accounts to explain a significant increase in DIUS's administration costs⁴³ DIUS said that there “are a few factors which contribute to the increase such as the cost of the new accommodation for the Department at Kingsgate House and new IT infrastructure installation”.⁴⁴ We therefore asked the Permanent Secretary, Ian Watmore, about the costs of the Machinery of Government changes. He told us:

Under the rules of machinery of government moves there is no new money in the system so the previous two departments before we existed, DTI and DfES [...] had administrative budgets and that total was then split three ways between us, BERR and DCSF. There is no new money in the system and that makes it tough for all three of us because we are trying to do something new without the investment funding *per se*.⁴⁵

28. We pressed again in writing on this question and DIUS supplied two tables. DIUS explained that Table 6 below recorded the net Administration expenditure for BERR, DCSF and DIUS for 2006–07 restated within the 2007–08 Resource Accounts.⁴⁶

Table 6

£000s	DCSF	BERR	DIUS	Total
Staff	126,312	159,906	40,045	326,263
Other Admin	97,496	151,323	21,000	269,819
Income	(14,523)	(24,176)	(1,012)	(39,711)
Net Admin	209,285	287,053	60,033	556,371

Table 7 below recorded the net administration expenditure for BERR, DCSF and DIUS for 2007–08 as stated within the Resource Accounts.⁴⁷

42 Cabinet Office, *Civil Service Capability Reviews Department for Innovation, Universities and Skills: Baseline Assessment*, December 2008, p 13

43 We examine administration costs—the costs of running the department—in more detail chapter 4.

44 *Department for Innovation, Universities and Skills Resource Accounts 2007-08*, HC (2007-08) 864, p 17

45 Q 28

46 Ev 74

47 Same as above

Table 7

£000s	DCSF	BERR	DIUS	Total
Staff	119,965	152,831	37,970	310,766
Other Admin	80,809	357,802	29,407	468,018
Income	(14,436)	(41,982)	(239)	(56,657)
Net Admin	186,338	468,651⁴⁸	67,138	722,127
% increase/decrease in staff costs from 2006–07	-5%	-4%	-5%	-5%
% increase/decrease in total admin from 2006–07	-11%	63%	12%	

DIUS explained that

The 12% increase in DIUS Administrative costs from 2006–07 to 2007–08 amounted to £7,104k consisting of £5,381k related to IT set up costs and a reduction in staff expenditure of £2,075k. Also included in 2007–08 are other set up costs. The 2006–07 were produced on an estimate basis as DIUS did not exist as a single department in 2006–07 and will not reflect exactly the comparative expenditure.⁴⁹

29. DIUS's response did not satisfy us. It did not explain, for example, whether the IT set up costs arose from the Machinery of Government changes or the installation of a planned new IT system. It is plain that the Machinery of Government changes must have given rise to costs—for example, staff had to move offices.⁵⁰ When we pressed DIUS for a reconciliation of its and DCSF's costs with those of their predecessor departments, DfES and DTI, DIUS said that the “creation of DIUS was not the only Machinery of Government change that applied to the former DFES and DTI in 2007–08. As a result the direct comparison requested is not available.”⁵¹

30. We found our attempts to scrutinise the costs of the Machinery of Government changes a frustrating exercise. DIUS appeared to be saying to us that the Machinery of Government changes cost nothing because there was no “new money” and so the changes cost nothing. This response lacks credibility and does not square with DIUS's audited accounts. In our view the Machinery of Government changes by their nature must have cost something and therefore the money had to come from somewhere. **We recommend that the NAO review the costs of the Machinery of Government changes at DIUS.**

48 DIUS explained that the rise in the BERR administration costs was due to an increase in the cost of capital charge in excess of £200m.

49 Ev 74, section 1

50 Staff moved from the former DfES's offices at Sanctuary Buildings, Great Smith Street, London SW1 and from DTI's offices at 1 Victoria Street, London SW1 to DIUS's Head Office at Kingsgate House, 66-74 Victoria Street, London SW1.

51 Ev 74, section 1

Staff

31. Counting staff on a full-time equivalent basis DIUS had 776.8 staff at 31 March 2008, up from 762 when DIUS was created.⁵² The *Departmental Report* explained that “transferring functions did not initially include Corporate Services (Finance, Human Resources, Communications, the Press Office and Facilities Management)” and that DIUS had “subsequently recruited into these functions. On transfer, there were also a number of existing vacancies that have subsequently been filled.”⁵³ On the face of it this appears to us to point to additional staff costs.

32. We asked Mr Watmore about staff morale following the Machinery of Government changes and about his claim in his foreword to the *Departmental Report* that “We have already built a Department whose staff are proud of it”.⁵⁴ He explained that “We do have quite regular ways of polling our staff”⁵⁵ and that two staff surveys had been carried out and that a third was underway.⁵⁶ He said that the surveys had been anonymised.⁵⁷ We note that the *Capability Review* of DIUS published in December 2008 found that “staff frequently refer to a number of low-level problems around systems and processes that affect their day-to-day work”⁵⁸ and that the “Board needs urgently to resolve outstanding systems and process issues (such as branding, systems, IT and terms and conditions) that are frustrating staff, and to recognise that, if unresolved, these issues pose a serious risk to staff morale.”⁵⁹

We recommend that, to test their validity, the DIUS staff surveys be comprehensive, independently validated and published.

Comparison with the private sector

33. We noted that both Mr Watmore⁶⁰ and Mr Dickinson, Director General, Finance and Corporate Services,⁶¹ had extensive experience in the private sector. We asked them for their views on the differences between the private sector approach and the civil service. Mr Watmore found in DIUS

52 *Departmental Report*, p 137-38

53 *Departmental Report*, p 137

54 *Departmental Report*, p 5

55 Q 31

56 Q 33; see also Ev 75, section 2

57 Q 32

58 Cabinet Office, *Civil Service Capability Reviews Department for Innovation, Universities and Skills: Baseline Assessment*, December 2008, p 12

59 Cabinet Office, *Civil Service Capability Reviews Department for Innovation, Universities and Skills: Baseline Assessment*, December 2008, p 14

60 According to his *curriculum vitae* published on DIUS's website: Mr Watmore joined the Civil Service in September 2004 after a twenty four year business career in IT, culminating as Accenture's UK Managing Director from 2000 to 2004, http://www.dius.gov.uk/board/ian_watmore.html.

61 According to his *curriculum vitae* published on DIUS's website: Prior to joining DIUS in July 2008 Mr Dickinson worked in various roles at KPMG from 1988, including two years as the UK firm's representative on a global team working at their product development and innovation centre in the USA. As partner he led the department responsible for UK audit professional practice support, and most recently was an audit partner for the Financial Services division and Head of Audit for the UK Asset Management sector. He worked with a wide portfolio of financial services companies including FTSE 100 and major US listed companies, investment trust companies, venture capital trust companies, private equity firms, securitisation special purpose vehicles, insurance companies and retail, commercial and investment banks, http://www.dius.gov.uk/board/bill_dickinson.html.

incredible commitment amongst the staff at a level that many private sector organisations would actually kill for. [...] The second thing is what has been built up over quite a long period has been very strong accountability in a sort of vertical sense from the frontline to the minister and the Department in terms of particular aspects of policy delivery. [...] I think the challenge for the public sector generally going forward [...] is how to deliver across those accountabilities because these days the problems that society face are so much bigger than any one team or one department can deal with on their own. That is something that we are all reflecting upon in Whitehall, how we make all of the parts add up to the very significant demands that were placed upon us in the last Comprehensive Spending Review.⁶²

Mr Dickinson agreed and added:

The key difference I observe from the finance perspective is that policy outcomes that the Department is working towards achieving are the outcomes themselves, whereas from a private sector perspective often finance is there in terms of what profitability can we drive. Finance is there in the public sector capacity as an enabler rather than as an outcome of its own. I think that is the single largest difference that I observe.⁶³

34. We are grateful for Mr Watmore's and Mr Dickinson's comments, but we did not find that they shed new light on the comparison between the private and public sectors. This is an issue we may return to.

Relationship with Department for Children, Schools and Families (DCSF)

35. The decision to split the old DfES in two means that two departments are responsible for education in England. DCSF has responsibility for all children and young people up until 19 years of age and for the new arrangements to work satisfactorily there has to be successful joint working between DIUS and DCSF to ensure, for example, that the education system does not fracture into two systems.

36. The Secretary of State considered that "that the gains of having a department focused on children and the gains of having a department that brings together [...] innovation, research and skills outweigh the issues we inevitably have to deal with as a consequence of the split."⁶⁴ Mr Watmore gave us information about the working arrangements between the two departments. He said that the relationship between the two Secretaries of State was "very close" and that they met regularly to "discuss all matters of mutual policy"⁶⁵ as he did with the permanent secretary at DCSF.⁶⁶ He explained that there were also

formal structures in place; we share boards together. We have joint boards, as it happens, with [the Department for Work and Pensions] as well to give us the

62 Q 2

63 Q 3

64 Q 126

65 Q 48

66 Same as above

tripartite relationship. We also have specific boards to deliver on key programmes; for example, in the restructuring of the Learning and Skills Council into the different agencies that will be made. [...] On each of the programmes where we have a shared interest we have a joint structure to oversee it, which is driving progress.⁶⁷

37. Although DIUS pointed out that it had joint working arrangements with several departments, the arrangements with DCSF appear—as we would expect—to be more extensive than with other departments, and DIUS followed-up the oral evidence with a helpful note on the co-operation between DIUS and DCSF on promotion of the programme of diplomas and STEM.⁶⁸ **We conclude that it is too early to say whether the arrangements for joint working between DIUS and DCSF are working satisfactorily.** Effective co-ordination between DIUS and DCSF across a wide range of issues will be crucial, particularly for DIUS if it is to meet its objectives. **We recommend that future departmental reports contain a chapter setting out the arrangements for joint working at all levels between DIUS and DCSF and that DIUS report on the effectiveness of the arrangements.**

Departmental website

38. Mr Watmore accepted that for DIUS, which had innovation in its title, modern communication and the departmental website were important.⁶⁹ We use DIUS's website and can report our experience directly. For much of the first year after DIUS was established there was no search facility within the website. A search facility was added in 2008 but the results it produced were often less than satisfactory. For example, if a user entered "departmental report" the results that came up produced as the first entry a link to the first chapter which had no obvious links to the remainder of the Report. Mr Watmore said that the website was "something which I aim to improve all the time".⁷⁰ In a written memorandum after the oral evidence session DIUS explained that:

Over the next 6 months the DIUS corporate website will have completed a full re-design and the Department will have switched web service provider. As part of the re-design process a wide range of DIUS website users will be consulted including; face to face interviews with a selection of NDPBs and Executive Agencies, face to face interviews with senior officials, Ministers and other stakeholders, online questionnaire for staff and an online questionnaire for public external users.

Full user testing will also take place at several stages of the re-design and both internal and external users of the site will be given the opportunity to test and comment on the proposed site. We are also commissioning research with our intended audiences for the DIUS website and our primary customer-facing online channels to ensure the service we provide reflect their needs and where they look for information online.⁷¹

67 Q 48

68 Ev 75, section 5; STEM is an acronym for science, technology, maths and engineering.

69 Q 38

70 Q 39

71 Ev 75, section 4

39. We accept that it is unrealistic to expect a newly established department to have a fully functional website the day after it is set up and, to give DIUS credit, we find that it has improved recently. But we conclude 18 months to reach this point is excessive and it is unacceptable that DIUS should have had until recently one of the poorest websites in Whitehall. We urge DIUS to make further improvements.

Risks

40. The Treasury guidance on departmental annual reports advises that it “is good practice to report on risks to delivery—this might involve discussion of particular risks and/or the approach to managing risks”.⁷² The *Departmental Report* explained that a Departmental Audit and Risk Committee has been established, meeting five times a year, to advise Mr Watmore as Accounting Officer and the Board of DIUS on “audit, risk and control issues, to make recommendations on risk management strategy, and to ensure that we meet corporate governance requirements.”⁷³

41. Annex 3 to the *Departmental Report* contains a table listing risks,⁷⁴ but we found it difficult to see the rationale behind the list. We cite one risk from the list:

Failure to ensure that better education, research and innovation outputs translate into better economic and social outcomes. [Responsibility for managing this risk was allocated to the Ministerial team and Board as “owner”.]

42. When we asked Mr Watmore how he measured this risk, he said that it was “really hard to measure”⁷⁵ but pointed out that

we have to measure the impact [...] of our programmes because [...] £15 billion to £20 billion a year of public sector money is going through our department into the wider system [and] very often that only bears fruit over a medium-term period. So we are reaping the rewards today, for example, in some areas of science and innovation from an investment that happened several years ago. [...] We have to find ways of measuring the ongoing impact of that investment, otherwise [...] the Treasury will not continue to support us. [...] We can do it in ways that really demonstrate impact. [For example,] we are working with the research councils and using their capability—and remember that some of those are some of the leading social scientists and economic researchers in the country—to evaluate the spend of the Department on the society in which it serves, both economically, business-wise and on individual communities.⁷⁶

43. We also compared the list of risks in the *Departmental Report* with those in DIUS's annual accounts and were puzzled to see that the two lists had marked differences. In the

72 HM Treasury, *Public Expenditure System: Guidance for the Spring 2008 Departmental Reports*, PES (2007) 21, 21 December 2007, para 7 [paper deposited in the House of Commons Library]

73 *Departmental Report*, pp 30 and 118

74 *Departmental Report*, p 118

75 Q 70

76 Same as above

section on internal control in the annual accounts Mr Watmore set out the following “issues”:

The Learning and Skills Council (LSC) is one of the Department's key NDPBs and an area of concern has been identified with regard to the failure to properly embed corporate risk management across the organisation and respond to concerns raised by internal audit in the previous financial year. This has been disclosed in the LSC Statement on Internal Control for 2007–08 and is being addressed as a matter of priority. The LSC has undertaken a redesign of its approach to risk management and is working to achieve prompt and genuine progress in this area for review by the LSC's National Audit Committee.

The Student Loans Company (SLC) performs ongoing work to manage fraud and student support overpayments. Details of the steps being taken are disclosed within the SLC Statement of Internal Control for 2007–08.

During this accounting period the Design Council implemented a pay award that exceeded the level approved by Ministers for 2006–07. As a result of this second breach (the Design Council implemented a pay award for 2005–06 without Ministerial approval which led to a regularity qualification of the accounts by the National Audit Office) Ministers took punitive action by imposing a fine of £10,000 to fund an audit. The audit will provide the Department with assurance on the appropriate implementation of the 2007–08 remit. The Design Council has already introduced process improvements and I am hopeful that there will not be a recurrence of this issue.⁷⁷

44. The risks listed in DIUS's accounts appear to us to be matters for which public officials—and ultimately ministers—have control and should be accountable if they do not address and take all reasonable steps to reduce the risk. We are concerned that the list in the audited accounts has not been reproduced in the list of risks in the *Departmental Report*. Instead DIUS has produced a list that includes items that are likely to defy accountability. We accept that it is reasonable—and indeed it is commendable—for DIUS to wish to measure the effects of its policy. But we are concerned that the inclusion of items, such as the failure to ensure that better education, research and innovation outputs translate into better economic and social outcomes, on a list of risks serves no purpose. **We consider that the inclusion of items which are essentially the measurement of the effectiveness of policy in a list of risks undermines the point of the list. We are also concerned that the list of risks in the *Departmental Report* does not align with the risks in DIUS's annual accounts. We recommend that, when it produces next year's departmental report, DIUS reconsider the basis on which the list is produced and explain the rationale for the inclusion of items on the list, and produce a risk list that distinguishes between risks over which DIUS has direct control and responsibility from those that it does not.** (We examine managing the balance between innovation and risk at paragraphs 78 to 80.)

77 *Department for Innovation, Universities and Skills Resource Accounts 2007-08*, HC (2007-08) 864, p 38

Capability Review: management of risk

45. The *Capability Review* of DIUS published on 11 December 2008, which we consider later in this chapter, pointed to a broader question about the management of risk within, and by, DIUS. Several findings in the *Review* gave us grounds for concern—specifically, it reported:

- DIUS needs to examine its framework for working with its delivery partners in order to ensure that it can share best practice and monitor risks. It needs to consider roles and responsibilities in its delivery chains to ensure that the specific level of risk and autonomy is right.⁷⁸
- Some delivery partners report that there is a lack of hard-edged performance management in their relationships. Whilst they are often engaged in debate, some partners report little in the way of proper challenge and scrutiny.⁷⁹
- Staff, stakeholders and delivery partners are concerned that the Department lacks sufficient understanding of its risks within the delivery chain.⁸⁰

46. The findings in the *Capability Review* reinforced our uneasiness about the management of risk within, and by, DIUS. **We recommend that DIUS, as a matter of urgency, review the systems that it has in place for managing and assessing risk and for scrutinising the systems within the department and by those bodies for which it has responsibility to implement policy efficiently and effectively.**

Capability Review

47. In October 2005 the Cabinet Secretary announced to the Public Administration Select Committee⁸¹ that a programme of *Capability Reviews* would both assess how well equipped departments were “to meet their delivery challenges and provide targeted support to make any improvements required”.⁸² The programme is run for the Cabinet Secretary by the Capability Reviews Team in the Cabinet Office. The review programme targets underlying “capability issues that impact on effective delivery”, such as:

- a) Do departments have the right strategic and leadership capabilities?
- b) Do they know how well they are performing, and do they have the tools to fix their problems when they underachieve?
- c) Do their people have the right skills to meet both current and future challenges?

78 Cabinet Office, *Civil Service Capability Reviews Department for Innovation, Universities and Skills: Baseline Assessment*, December 2008, p 14

79 Cabinet Office, *Civil Service Capability Reviews Department for Innovation, Universities and Skills: Baseline Assessment*, December 2008, p 11

80 Cabinet Office, *Civil Service Capability Reviews Department for Innovation, Universities and Skills: Baseline Assessment*, December 2008, p 12

81 Oral evidence taken before the Public Administration Committee on 11 October 2005, HC (2005-06) 513-i, Qq 1, 4, 12, 15, 56, 86, 120

82 Tenth Special Report from the Public Administration Committee, Session 2007-08, *Politics and Administration: Ministers and Civil Servants: Government Response to the Committee's Third Report of Session 2006-07*, HC 1057, para 7

d) Do they engage effectively with their key stakeholders, partners and the public?⁸³

48. When he gave oral evidence on 13 October 2008 Mr Watmore informed us that DIUS was being reviewed⁸⁴ and that he expected the review to be completed and the report to be published by the Christmas recess.⁸⁵ The *Capability Review* of DIUS⁸⁶ was published on 11 December 2008 as we were completing our deliberations on this Report. We have not taken detailed evidence on it from DIUS but the findings in the *Review* give us grounds for concern. Using the *Review's* "assessment of capability for future delivery" we note that DIUS compares poorly with its sister department, DCSF.⁸⁷ Assessment of capability is assessed against five categories (in descending order): strong; well placed; development area; urgent development area; and serious concerns. Table 8 below compares the results of the *Capability Reviews* of the two departments.

Table 8

Category	DCSF ⁸⁸	DIUS ⁸⁹
Leadership		
L1 Set direction	Well placed	Well placed
L2 Ignite passion, pace and drive	Strong	Well placed
L3 Take responsibility for leading delivery and change	Strong	Urgent development area
L4 Build capability	Development area	Development area
Strategy		
S1 Focus on outcomes	Well placed	Urgent development area
S2 Base choices on evidence	Well placed	Development area
S3 Build common purpose	Development area	Well placed
Delivery		
D1 Plan, resource and prioritise	Well placed	Development area
D2 Develop clear roles, responsibilities and delivery model(s)	Development area	Development area
D3 Manage performance	Well placed	Development area

83 "Capability Reviews" at "About the Civil Service", <http://www.civilservice.gov.uk/about/accountability/capability/background.asp>

84 Q 36

85 Q 37

86 Cabinet Office, *Civil Service Capability Reviews Department for Innovation, Universities and Skills: Baseline Assessment*, December 2008

87 Cabinet Office, *Civil Service Capability Reviews Department for Children, Schools and Families: Progress and next steps*, July 2008

88 Cabinet Office, *Civil Service Capability Reviews Department for Children, Schools and Families: Progress and next steps*, July 2008, p 6

89 Cabinet Office, *Civil Service Capability Reviews Department for Innovation, Universities and Skills: Baseline Assessment*, December 2008, p 7

In summary, DIUS had no areas assessed “strong” whereas DCSF had two and DIUS had three “well placed” areas compared to five at DCSF. On the middle category, “development area”, DIUS had five compared to DCSF’s three. Going further down the scale, DIUS had two areas in “urgent need of development” whereas DCSF had none.

49. As the foreword to the *Capability Review* of DIUS states, it is an “honest and robust” assessment, which is carried out by a team based in the Cabinet Office with “external reviewers chosen for their expertise and experience”. While acknowledging some achievements that DIUS has made, it describes a department that is not yet functioning effectively. The findings of the *Capability Review* chime with our conclusions in this Report. **We found it instructive that the *Capability Review* with its independent and outside perspective produced a much more critical assessment of DIUS than either the *Departmental Report* or the 2007 or 2008 *Autumn Performance Reports*, which were essentially DIUS produced assessments of its own record.**

50. Finally, we must express both surprise and concern at the tone of the DIUS press release commenting on the *Capability Review*. The press release begins DIUS, “the first wholly new Department for nearly 20 years, made a strong start in its first 18 months, according to a Cabinet Office Capability Review published today”.⁹⁰ First, DIUS is as much a new department as DCSF or, going back further, the Department for Environment, Food and Rural Affairs or the now defunct Department of Transport, Local Government and Regions. Second, only at the end of text of the press release is there a brief reference to “areas for action” and nowhere in the body of the release is there a statement or an acknowledgement of the weaknesses that the Review identified. **In our view, DIUS needs to face up to and address the criticisms in the *Capability Review* published in December 2008. We expect to follow-up the findings in the *Capability Review* of DIUS in 2009.**

90 “DIUS capability review: Supporting the economy, investing in future prosperity”, DIUS press release, 11 December 2008

4 Financial management

Comprehensive Spending Review 2007

51. The 2007 Comprehensive Spending Review (CSR07) provided DIUS with a total budget of £18.7 billion in 2008–09, £19.7 billion in 2009–10 and £20.8 billion in 2010–11, equivalent to 2.2 % annual average real growth.⁹¹ According to the Treasury this included:

- increasing investment in the UK's public science base, which will rise by an annual average rate of 2.5% in real terms over the CSR07 period, meeting the commitment in the ten-year framework;⁹² and
- spending on Higher Education and Skills rising by 2.0% in real terms over the CSR07 period.⁹³

The Treasury said that this additional investment accompanied by savings (see below, paragraph 68) would provide for the delivery of:

- £5.3 billion a year by 2010–11 to increase adult skills and apprenticeships and make progress against the Leitch⁹⁴ ambitions for world-class skills;
- total public funding for business innovation led by the Technology Strategy Board of over £1 billion over the CSR07 period; including cofunding of at least £120 million committed by the Research Councils, and cofunding of £180 million committed by the Regional Development Agencies;
- more than £1 billion in additional funding for Higher Education over the CSR07 period to increase participation, maintain the per student funding level and provide more generous student support for 250,000 students;
- £682 million for the Medical Research Council contribution to the £1.7 billion fund to implement the recommendations of the Cooksey Review of health research;⁹⁵ and
- implementation of the Sainsbury Review⁹⁶ to further improve the UK science and innovation system.⁹⁷

52. When he gave evidence to us in January 2008 the Secretary of State considered that DIUS had obtained “a good settlement”.⁹⁸ He explained that DIUS had obtained “real

91 HM Treasury, *2007 Pre-Budget Report and Comprehensive Spending Review*, Cm 7227, October 2007, section D4

92 HM Treasury, DTI, DfES, *Science & innovation investment framework 2004 - 2014*, July 2004

93 HM Treasury, *2007 Pre-Budget Report and Comprehensive Spending Review*, Cm 7227, October 2007, section D4

94 HM Treasury, *Leitch review of skills: Prosperity for all in the global economy—world class skills*, Final report, 2006

95 HM Treasury, *A review of UK health research funding: Sir David Cooksey*, December 2006

96 HM Treasury, *The Race to the Top: A Review of Government's Science and Innovation Policies; Lord Sainsbury of Turville*, October 2007

97 HM Treasury, *2007 Pre-Budget Report and Comprehensive Spending Review*, Cm 7227, October 2007, section D4

98 Oral evidence taken on 16 January 2008, HC (2007–08) 186-i, Q 34

growth” in every major area of activity from the science budget to the expansion of skills training to widening participation and increasing partnerships in higher education, “so we have certainly got the money [...] to achieve the targets that we have set out for ourselves publicly in each of those areas.”⁹⁹

PSA targets

53. When the Government published its Comprehensive Spending Review (CSR07) in October 2007,¹⁰⁰ it included a number of Public Service Agreements (PSAs), setting out the priority objectives for the next spending period (2008–09 to 2010–11). As DIUS's *Departmental Report* pointed out, it “effectively set our agenda for the next three years by giving us primary responsibility for two PSAs that are fundamental to building a more prosperous and successful nation”.¹⁰¹ The two PSAs are:

PSA 2: Improve the skills of the population, on the way to ensuring a world-class skills base by 2020.

PSA 4: Promote world-class science and innovation in the UK.

Managing budgets

54. Over the past year we have had a number of concerns about budget management by DIUS—for example, on the withdrawal of funding of £100 million for students studying equivalent or lower qualifications,¹⁰² the science budget allocations,¹⁰³ and the movement of resources between *Train to Gain* and student support.¹⁰⁴

29 October 2008 announcement on changes to student support

55. At the start of the evidence session on 29 October DIUS distributed a statement which announced that the amount of student support available for children of middle-income parents coming into university in 2009–10 would be cut.¹⁰⁵ We have two concerns. First, the adequacy of the statement and, second, financial management within DIUS.

56. The gist of the change announced was to reduce eligibility for financial support for students by lowering the upper limit for parental income from £60,000 in 2008–09 to £50,020 in 2009–10.¹⁰⁶ This was not made clear in the statement. Instead, it compared the proposed 2009–10 thresholds with those in 2007–08. It stated:

99 Oral evidence taken on 16 January 2008, HC (2007–08) 186-i, Q 34

100 HM Treasury, *2007 Pre-Budget Report and Comprehensive Spending Review*, Cm 7227, October 2007

101 *Departmental Report*, p 21

102 Third Report of the Innovation, Universities, Science and Skills Committee, Session 2007-08, *Withdrawal of funding for equivalent or lower level qualifications (ELQs)*, HC 187

103 Fourth Report of the Innovation, Universities, Science and Skills Committee, Session 2007-08, *Science Budget Allocations*, HC 215

104 See below, para 95.

105 HC Deb, 29 October 2008, cols 32-33WS

106 Q 141

the family income threshold for a partial grant will be £50,020, which means that all students with household incomes of £18,360—£50,020 will be eligible for higher levels of grant than in 2007–08.¹⁰⁷

57. We asked the Secretary of State why the statement did not make it clear that there would be a reduction in financial support compared to 2008–09. He replied that the statement “is setting out what the system will look like, which is what we set out in the statement [...] I think you will find [...] that, on the websites and the places where it matters, this information is very clear.”¹⁰⁸ During subsequent exchanges at the evidence session the Secretary of State estimated that “around 35[,000] to 40,000” students might not receive support as a result of the changes.¹⁰⁹ It also emerged that the plans for student expansion were to be reduced to 10,000 places in this year.¹¹⁰ The 29 October statement also said that the “full annual impact of these changes will reduce the cost pressure by £100 million.”¹¹¹ Subsequent reports indicated that the budgetary pressure that DIUS faced was £200 million.¹¹² We note that DIUS produced no press release or background information with the statement. Only those with a thorough background knowledge of the system would understand that the statement announced was a cut. **We found DIUS’s written statement announcing a cut in student support in 2009–10 unhelpful and incomplete. It fell below the standards we would expect from a government department. We recommend that when DIUS makes announcements affecting the financial support of students it sets out in the announcement, or in supporting material, the full consequences of the change.**

Budget management

58. Our second concern was budget management within DIUS. When asked about the 29 October announcement and as, we then thought, a £100 million projected overspend for higher education, the Secretary of State explained that

we have to look at the budgets available to us and we are looking, firstly, at the departmental unallocated provision. [...] Secondly, within the system we have significant progress on our targets for cash-releasing efficiency saving, so obviously we will look at places where genuine efficiency savings can be made to produce cash, and then we will have to look at other parts of the DIUS budget. [...] We do not want to breach the science ring-fence.¹¹³

107 HC Deb, 29 October 2008, col 32WS

108 Qq 145-46

109 Q 148

110 Q 142; in March 2008 HEFCE announced commitments for approximately 24,000 (full time equivalent) additional funded students places for 2008-09, HEFCE, “Recurrent grants for 2008-09”, March 2008/12; as part of CSR07 the Government announced the funding of 50,000 additional students by 2010-11—“2007 Pre-Budget Report and Comprehensive Spending Review Departmental Settlements: Department for Innovation, Universities and Skills” HM Treasury press notice PN04, 9 October 2007; see also HM Treasury, *Meeting the aspirations of the British people: 2007 Pre-Budget Report and Comprehensive Spending Review*, October 2007.

111 HC Deb, 29 October 2008, col 33WS

112 “Grants for ‘middle-income’ students to be cut”, *The Guardian*, 29 October 2008

113 Q 143

59. We also raised with the Secretary of State the transfer of £128 million in 2007–08 from the further education budget to the higher education budget, £49 million of which was a permanent transfer.¹¹⁴ When he gave evidence on 13 October 2008 Mr Watmore had explained that:

it was because Easter came early. It is a curiosity of the fact that the next term of the university sector started on 31 March, which happened to be the last day of our financial year. I think that is where the overestimate occurred. It is as simple as that. If I have that wrong, we will correct it afterwards. It is the way these accounting matters work, on a per day basis. We had a day of a new term in the old financial year and therefore it came into the old financial year. We managed that across the financial year boundary. [...] it was a borrowing for a night and then paying.¹¹⁵

60. Subsequently, DIUS explained that £116 million was transferred, of which £67 million was temporarily made available, to deal with Easter being early in 2008, and had been reallocated back to further education and skills budgets. The remaining £49 million was a permanent transfer from further education and skills to higher education in 2007–08 (see paragraph 95 below). When we raised the matter again with the Secretary of State on 29 October, he started his response by making some general observations about budgets and financial management in DIUS:

The reality is that we have a very large budget, about £20 billion [...] some of which is ring-fenced by policy decision, particularly the science budget, and the other major budgets are very much demand-led or at least demand-influenced, not perhaps in quite the same way that [the Department for Work and Pensions] has to pay [Job Seeker's Allowance] to every claimant, but we can influence overall the student numbers, we can influence overall [further education] learners, but we are pressured under demands. I think it is an inevitable fact of running a department like this that, even over the course of the CSR, there will be adjustments one way or the other in most years that a department like this operates, just as historically, although it was not always so obvious, people who knew the old Education Department knew that there were always shifts between 16 to 19 and adult budgets one way or another, reflecting the flows of students.¹¹⁶

On the switch of resources from further to higher education in 2007-08, he considered that “it was the sort of adjustment towards an end of a financial year which over the years, one way or another, is likely to occur in a department of this sort.”¹¹⁷

61. We listened carefully to the Secretary of State's explanation of budgetary management within DIUS. **We conclude that DIUS is trying to have it both ways on budgetary management. On the one hand it pointed out that it was managing billions and appeared to claim that the switch of £49 million from further to higher education was an end of year “adjustment”. On the other hand, however, in 2008–09 DIUS could not**

114 Q 128; Ev 78; also see below, para 95.

115 Q 103

116 Q 129

117 Same as above

find £100 million to provide continued support for students studying equivalent or lower qualifications. We shall continue to monitor budgetary adjustments made by DIUS. Finally, we noted the Secretary of State's reference to the possibility, albeit as something that he did not want to do, of breaching the ring-fence on science resources. We recommend that, in responding to this Report, DIUS give a firm undertaking that the ring-fence on science resources will be maintained and that resources will not be switched from science.

Unallocated provision and reserves

62. In his comments the Secretary of State referred to unallocated provision. It would assist our scrutiny if the *Departmental Report* set out the total unallocated provision and reserves—known in central government as “end year flexibility”—available to DIUS. In response¹¹⁸ to our written questions we learned that DIUS carried forward into 2008–09 over a billion pounds¹¹⁹ in end year flexibility—set out in Table 9 below—which with Treasury agreement is available to meet spending pressures.

Table 9

£000s	Near Cash ¹²⁰	Non Cash ¹²¹	Capital
RfR1 - Education Admin	5,971	0	0
RfR1 - Education Programme	521,329	80,759	133,583
RfR2 - Science Programme	251,263	-36,146	77,637
Total	778,563	44,613	211,220

We recommend that in future departmental reports DIUS set out in full the total amounts of unallocated provision and reserves (or end year flexibility) available and claimed by DIUS.

Forecasting

63. We enquired whether the pressures on the higher education budget were caused by shortcomings in DIUS's forecasting or disruption arising from the Machinery of Government changes. Mr Watmore pointed out that in 2007–08 DIUS had “inherited budgets from different sources [...] half-way through the year” and considered that to finish the financial year with a fully and properly audited set of accounts and all the money balancing was “a huge achievement”.¹²² We concur and congratulate DIUS for producing a full set of audited accounts. The Secretary of State was clear that the realisation half-way through the financial year of pressures on the higher education budget had “nothing to do with the formation of a new department”.¹²³ He said that when grants had been increased

118 Ev 67

119 It is noted that the figures supplied in the memorandum (Ev 67) in July 2008 show an increase compared to those previously supplied with the Estimates Memorandum with the Spring Supplementary Estimate for 2007-08 (Ev 97) in March 2008, and with the Main Estimate for 2008-09 (Ev 113) in May 2008. It is assumed that the increase arises from unused resources from 2008-09 increasing end year flexibility.

120 Near cash is anything that can be converted to cash in the short run. For example, debtors are near cash, because they are expected to pay up shortly and this means they will provide cash for the organisation.

121 Non cash is an expense such as depreciation that is not paid for in cash.

122 Q 131

123 Q 138

from £1,000 to £2,700, the data was not available to predict with “absolute precision” the number of people going to apply for grants.¹²⁴ The data available was from 2005–06.¹²⁵ The Secretary of State said that issues that that arose would have been faced by a secretary of state in the old department had there been no Machinery of Government changes.¹²⁶

64. To meet some of the pressures from higher education expenditure DIUS was able in 2007–08 to switch resources from the budget for further education, in particular *Train to Gain*. We examine *Train to Gain* further at chapter 6 but it appears that a pattern may be emerging of underspending on further education providing a reserve to meet pressures such as those arising on higher education. **The emerging of a pattern of overspending on higher education met in part by switches from underspends on further education raises a question about the accuracy of DIUS's forecasting and, potentially, wider policy issues about the relationship between higher and further education. The accuracy of DIUS's financial forecasting is a matter we shall keep under review.**

Administration costs

65. Table 10 below from the *Departmental Report*¹²⁷ sets out DIUS's administration costs, in other words the costs of running the department.

Table 10

(£000)	2002–03	2003–04	2004–05	2005–06	2006–07	2007–08	2008–09	2009–10	2010–11
	Outturn	Outturn	Outturn	Outturn	Outturn	Estimated outturn	Plans	Plans	Plans
Administration expenditure									
Paybill	44,556	48,049	51,986	47,656	48,760	53,154			
Other	28,028	28,298	32,931	21,395	21,667	16,253			
Total administration expenditure*	72,584	76,347	84,917	69,051	70,427	69,407	70,000	68,000	67,000
Administration income	-3,078	3,200	-3,316	-3,638	-4,148	-1	-	-	-
Total administration budget	69,506	73,147	81,601	65,413	66,279	69,406	70,000	68,000	67,000

* Administration costs within the administration costs control regime

66. The Table appears to show an increase in administration costs of 4.7% between 2006–07 and 2007–08. These figures did not match with those in DIUS's audited accounts which record that its gross administration costs increased from £61.0 million in 2006–07 to £69.2 million in 2007–08,¹²⁸ an increase of 13%. We asked Mr Watmore about the increase. He confirmed that DIUS's administration budget was about £70 million but pointed out that

124 Q 138

125 Q 131

126 Q 138

127 *Departmental Report*, Table 5 on p 105

128 *Department for Innovation, Universities and Skills Resource Accounts 2007-08*, HC (2007-08) 864, p 18

he “expected to reduce that by 5% in real terms over the Spending Review”.¹²⁹ He conjectured that the £61 million “was recorded [...] without some of the overheads”.¹³⁰ He made the point, which we have noted already in chapter 3, that the budgets for DIUS, DCSF and BERR should be consolidated and that when done it “is the same as it was”.¹³¹ He added that

we are incredibly efficient relative to normal Whitehall departments. We have an extremely efficient administrative spend, given our head count and given the extraordinary reach of our expenditure. We are fifth biggest in Whitehall expenditure and second cheapest in terms of cost base.¹³²

67. The *Departmental Report*, and to a greater extent DIUS's audited accounts for 2007–08, show significant increases in DIUS's administration costs at a time when budgets in Whitehall are under pressure to produce savings. **It is unacceptable that, when we sought to scrutinise DIUS's administration costs, to be advised that this has to be done by a consolidation of DIUS's, DCSF's and BERR's costs. Our job is to scrutinise the financial management of DIUS, not DCSF or BERR. We recommend that, in responding to this Report, DIUS produce accurate, hypothecated figures for its administration costs for 2006–07 which we can scrutinise and compare with subsequent years.**

Efficiency savings

68. As part of the Spending Review 2004 efficiency targets were agreed, prior to the creation of DIUS, by DTI and DfES:

- the total target for annual efficiency gains for DfES was £4.35 billion and for DTI was £380 million by 2007–08;
- DfES committed to a total reduction of 1,960 posts and DTI to reduce posts by 1,010 posts in the core Department by 2007–08; and
- DfES committed to relocation of 800 posts and DTI to 710 by 2010.¹³³

69. After the Machinery of Government changes, responsibility for attaining these targets was “shared with DIUS and it has an agreed indicative share of the targets to be delivered in the areas that are now part of the department: Science, Innovation, Further Education and Skills and Higher Education functions”.¹³⁴ In its *2007 Autumn Performance Report* DIUS said that it was “on course” to meet the targets.¹³⁵ In a memorandum sent in July 2008 DIUS explained that the efficiency savings were reported using agreed OGC¹³⁶/Treasury methodology and that the reported savings were validated by Director

129 Q 97

130 Q 98

131 Same as above

132 Q 102

133 DIUS, *Autumn Performance Report December 2007*, p 19

134 Same as above

135 DIUS, *Autumn Performance Report December 2007*, p 20

136 Office of Government Commerce

Generals as the Senior Responsible Owners through programme management arrangements. Some elements of the programme had also been audited by Internal Audit and DIUS central finance and the Treasury could also challenge “the data to check for robustness and validity”.¹³⁷ DIUS reported in its *2008 Autumn Performance Report*:

final net efficiency gains of £887 million (of which £558 million are cash releasing savings) against its target of £622 million at the end of March 2008. This is an over-achievement of £265 million. In addition DIUS delivered a further over-achievement of £198 million of gains, £154 million of which are cash releasing gains that Treasury has agreed can be rolled forward to count as early achievements towards its 2007 CSR commitment. This commitment will deliver further improvements and value for money of £1,543 million by the end of the CSR period. DIUS has also delivered a total of 133 relocations by September 2008 and will continue to report on the achievement of the remainder of the target by 2010.¹³⁸

70. CSR07 also set efficiency targets for DIUS. The Treasury said in the *2007 Pre-Budget Report and Comprehensive Spending Review* that the additional investment provided from CSR07 would be accompanied by value for money reforms generating annual net cash-releasing savings of £1,543 million by 2010–11.¹³⁹ The *Departmental Report* referred to a number of savings:

Research Councils to deliver value for money savings of £243 million by 2010–11.¹⁴⁰

The Research Councils UK Gershon efficiency project has successfully achieved its target of delivering savings of £170 million on reprioritisation, co-funding, the restructuring of Research Council institutes and reductions in administrative spending by individual Research Councils.¹⁴¹

The Learning and Skills Council estimates that from an annual procurement expenditure of £1.6 billion, colleges could make savings of £75 million by March 2008.¹⁴²

71. We have had problems scrutinising the £1,543 million in efficiency savings which DIUS agreed to make as part of the Comprehensive Spending Review 2007. First, the figures in the *Departmental Report* do not add up to £1,543 million. Second, although a more detailed list was provided in DIUS's *Value for Money Delivery Agreement December 2007*,¹⁴³ nearly half the savings (£700 million), which will fall on further education and skills, were not set out because DIUS was “still finalising details”.¹⁴⁴ Third, the 2008

137 Ev 70, para 10

138 DIUS, *Autumn Performance Report December 2008*, pp 67-68

139 HM Treasury, *2007 Pre-Budget Report and Comprehensive Spending Review*, Cm 7227, October 2007, section D4

140 *Departmental Report*, p 42

141 *Departmental Report*, p 51

142 *Departmental Report*, p 131

143 DIUS, *Value for Money Delivery Agreement December 2007*, www.dius.gov.uk/publications/07-12-10-CSR07-VFM-delivery-agreement-v0%207.doc

144 DIUS, *Value for Money Delivery Agreement December 2007*, para 2.1.13, www.dius.gov.uk/publications/07-12-10-CSR07-VFM-delivery-agreement-v0%207.doc

Autumn Performance Report provided no comprehensive account of the savings made in 2008.¹⁴⁵ We found especially the treatment of *Train to Gain* unclear. DIUS's *2008 Autumn Performance Report* stated that

we have recently introduced new flexibilities; DIUS announced that small businesses will be the focus of £350 million of Government funds within *Train to Gain* to help them train their staff. As part of this package, we are introducing new flexibilities to allow funding for units or modules of accredited training in subjects known to be valuable to SMEs. We will also be supporting level 2 training for staff who already have a previous qualification at this level. Both of these changes potentially affect the level of our *Train to Gain* efficiency.¹⁴⁶

We were unable from the information in the *Departmental Report* and the *2008 Autumn Performance Report* to form a clear picture of the extent to which the savings required as part of the Comprehensive Spending Review Settlement 2007 are being achieved by DIUS. **We recommend that in responding to this Report DIUS set out in detail with full baselines and costings—beyond those usually provided in Autumn Performance Reports—the savings promised as a result of CSR07 with progress made to date.**

145 DIUS, *Autumn Performance Report December 2008*, chapter 5

146 DIUS, *Autumn Performance Report December 2008*, p 75

5 Innovation

Innovation in DIUS's operations

72. The second (and first substantive) chapter in the *Departmental Report* begins:

Our vision is to be able to demonstrate innovation across every aspect of our organisation—from our strategy, our business operations and our employment practices to our buildings, and from our policy development to customer-oriented delivery. This chapter sets out in detail the vision that we are aiming for.¹⁴⁷

73. We asked Mr Watmore and DIUS officials for examples of DIUS's innovatory approach. They came up with: remote working; “hot-desking”; and the use of new communications technologies, such as social media.¹⁴⁸ Mr Watmore told us some of the changes were a “definite Whitehall first”.¹⁴⁹ We found Mr Watmore's reply embarrassing. **We conclude that, while the changes DIUS detailed in evidence as innovatory may be innovative in Whitehall, they might be better classified as the adoption of working practices used elsewhere.**

Gift voucher scheme

74. In 2007 the press reported that DIUS was developing a gift voucher scheme which could be used as a contribution to the cost of further education courses.¹⁵⁰ DIUS explained that the scheme, also known as the “Perfect Gift” voucher scheme, had been a joint DIUS and Learning and Skills Council (LSC) pilot launched in October 2007. The scheme had been launched as part of the LSC's then “Value of Learning” campaign and involved nine colleges offering people the opportunity to purchase £50 gift vouchers for friends, relatives or colleagues which could be used towards the cost of further education courses in the 2007–08 academic year.

75. Although there had been a national LSC press release, DIUS said that the localised nature of the scheme meant that local marketing carried out by the colleges involved had varied in “terms of the approach and intensity”.¹⁵¹ While, in some cases, effective marketing of the scheme through local press and radio had resulted in a good level of take-up, DIUS said that “there were also examples of less intense marketing i.e. only through a college website or onsite, which resulted in no vouchers being sold.”¹⁵²

76. The scheme had been evaluated and DIUS said that “conversations” with students at a college where the scheme had been less successful suggested that the primary reason for not obtaining vouchers was that the “value was too small and did not reflect the cost of a course”. In addition, despite research which suggested that 56% of people surveyed would

¹⁴⁷ *Departmental Report*, p 13

¹⁴⁸ Q 53

¹⁴⁹ Q 53 [Mr Watmore]

¹⁵⁰ “Gift vouchers to buy education”, *The Financial Times*, 19 October 2007

¹⁵¹ Ev 76, section 6

¹⁵² Same as above

like to receive a gift voucher, DIUS found that another reason given by individuals for not purchasing the vouchers was that “they were not a gift that they wanted to buy”. It had therefore been decided not to pursue the scheme for “the current academic year”.¹⁵³ **We conclude that the “Perfect Gift” voucher scheme launched in October 2007 needed more evaluation before it was launched.**

Regularity and propriety

77. Mr Watmore, like other Permanent Secretaries, is also the departmental Accounting Officer with the responsibility for ensuring regularity and propriety in DIUS's expenditure. The responsibilities of Accounting Officers include a personal responsibility for:

- the propriety and regularity of the public finances for which they are answerable;
- keeping of proper accounts;
- prudent and economical administration;
- the avoidance of waste and extravagance; and
- the efficient and effective use of all the available resources.

In addition, Treasury guidance requires that an Accounting Officer must ensure that there is a sound system of internal control to support the achievement of the organisation's policies, aims, and objectives and should regularly review the effectiveness of that system.¹⁵⁴ The Accounting Officer of a department which sponsors an arms' length body such as a non-departmental public body should, in addition, make arrangements to satisfy himself or herself that the Accounting Officer of the arms' length body is carrying out his or her responsibilities.¹⁵⁵

78. We asked Mr Watmore how he balanced his Accounting Officer duties—particularly that to avoid waste—with the promotion of innovation. Mr Watmore recognised that innovations that are tried would “not always work” and he was “okay with that”.¹⁵⁶ He explained that the

phrase we used to have in my business sector was “the important thing with innovation is to recognise the failure early and not to prolong its agony beyond when it was clear that it was not going to work”. To have a failure-free environment means you are not innovative and so you have to allow some failure to occur.¹⁵⁷

79. Mr Dickinson, Director General, Finance and Corporate Services, added that DIUS had a “robust framework of programme management controls”. He said that, for example, the shared service programme had a senior accountable officer and a programme board and that part of the role of DIUS's Audit and Risk Committee was to make sure that those “risk

153 Ev 76, section 6

154 HM Treasury, *Managing Public Money*, October 2007, chapter 3

155 HM Treasury, *Managing Public Money*, October 2007, para 3.8.2

156 Q 64 [Mr Watmore]

157 Same as above

structures and management structures are in place, and that the executive has a perspective on what is changing in the Department".¹⁵⁸

80. In the time available at the oral evidence session we were not able to explore the management of risk further. One issue is how the Technology Strategy Board, which from 2008–09 to 2010–11 has a budget of £676 million,¹⁵⁹ will manage risk when promoting innovation by investing in programmes and projects.¹⁶⁰ We also noted from recent press reports that the Government may have plans to launch £1 billion “emergency venture capital fund” to assist spin-outs from universities in IT, biotech, nanotech and green technologies during the current economic downturn.¹⁶¹ Finally, we note that the *Capability Review* of DIUS published on 11 December 2008 found that, although DIUS had

published its White Paper *Innovation Nation*, staff and stakeholders believe that DIUS' potential role on innovation is not currently being leveraged and is unclear. Some partners are waiting for DIUS to lead the innovation debate across government and to strengthen the links that innovation has with wider government agendas such as productivity and growth.¹⁶²

81. We recommend that, in responding to this Report, the Permanent Secretary at DIUS: (a) set out how it will manage and assess financial risk within DIUS and the bodies for which DIUS has responsibility; (b) clarify how he will balance the promotion of innovation with his responsibilities as Accounting Officer to ensure propriety and regularity in expenditure; and (c) explain the role and responsibilities he has devolved to the Audit and Risk Committee in respect of the management and assessment of risk.

Innovation targets

Research and development

82. In July 2004, the Government published a ten-year Science and Innovation Investment Framework,¹⁶³ which set out a long-term vision for UK science and innovation. It included “the ambition that public and private investment in R&D [research and development] should reach 2.5 per cent of GDP by 2014”.¹⁶⁴ The *Departmental Report* indicated that BERD [business enterprise research and development] expenditure as a proportion of GDP was 1.08%.¹⁶⁵ When we asked Mr Watmore if the 2.5% target had been dropped, he replied “not to my knowledge”.¹⁶⁶ But he picked up a point made in the *Departmental Report*¹⁶⁷ that R&D expenditure as a measure of activity was a “narrow measure relative to

158 Q 64 [Mr Dickinson]

159 *Departmental Report*, p 130

160 Technology Strategy Board website, <http://www.innovateuk.org/aboutus/whatwedo.ashx>

161 “Technology start-ups to be given £1bn fund”, *The Observer*, 7 December 2008

162 Cabinet Office, *Civil Service Capability Reviews Department for Innovation, Universities and Skills: Baseline Assessment*, December 2008, p 10

163 HM Treasury, DTI and DfES, *Science & innovation investment framework 2004 - 2014*, July 2004

164 Same as above, p 1

165 *Departmental Report*, p 86

166 Q 92

167 *Departmental Report*, p 87

innovation across the whole economy”¹⁶⁸ and that in many of the successful parts of the economy such as the creative sector very little R&D was recorded because “of the way they do the accounting on that, and yet they are one of the most R&D (in the true sense of the word) rich industries as they are constantly researching new products”.¹⁶⁹ As a consequence R&D tended to be measured in manufacturing and engineering companies with the result that countries such as Germany with many of these companies had recorded much higher R&D expenditure. Mr Watmore pointed out that one of the recommendations from the *Innovation Nation* White Paper¹⁷⁰ was to “create a new innovation index that would measure the real activity in the real economy of an innovative nature regardless”.¹⁷¹ DIUS planned to carry out the work in conjunction with NESTA.¹⁷² We note that in the *Annual Report 2008 on the Science and Innovation Investment Framework*, published in December 2008, the ambition “to raise investment in R&D to 2.5% of GDP by 2014” is restated¹⁷³ but with the qualification that R&D “was not the only significant input to innovation”¹⁷⁴ and that “traditional measurement techniques may underestimate the importance of investment in intangibles in driving productive growth [...] such as human and organisational capital, design and software”.¹⁷⁵ **On the “vision” of achieving public and private investment in R&D [research and development] of 2.5% of GDP by 2014, we recommend that DIUS set out in response to this Report: whether this is still a target, how it is to be calculated and, in addition, what effect the current economic downturn may have on the target. We also recommend that, when DIUS has created the new innovation index, it explain the basis of the calculation of the index and provide tables restating the UK’s performance since 2000 with comparisons with major industrial countries over the same period. Where a new measure is introduced, or an old measure changed, it is crucial, to ensure transparency, that both the old and new metrics continue to be published.**

“Innovation in the market” indicators

83. We were concerned that four out of the six “innovation in the market” indicators in the *Departmental Report* in Table 11 below¹⁷⁶ showed a decrease between 2005 and 2007 and asked whether this meant we were becoming less innovative as a country.

168 Q 92

169 Same as above

170 DIUS, *Innovation Nation: unlocking talent*, Cm 7345, March 2008

171 Q 92

172 Q 92; National Endowment for Science, Technology and the Arts

173 DIUS and HM Treasury, *Science and Innovation Investment Framework: Annual Report 2008*, December 2008, para 4.3

174 DIUS and HM Treasury, *Science and Innovation Investment Framework: Annual Report 2008*, December 2008, para 4.9

175 DIUS and HM Treasury, *Science and Innovation Investment Framework: Annual Report 2008*, December 2008, para 4.10

176 *Departmental Report*, p 87

Table 11

Indicator	2005	2007
Percentage of establishments that had introduced a new product, service or process improvement in the three years preceding the survey:		
product	25%	23%
process	16%	12%
Average percentage of establishments' turnover accounted for by new or significantly improved products and services in the three years preceding the survey	41%	56%
Percentage of establishments that were "innovation active" in the three years preceding the survey	57%	64%
Employment of qualified scientists and engineers in business	7%	5%
Proportion of businesses that collaborated with HEIs	4%	3%

84. We wrote to DIUS on two occasions on this issue. On the first occasion we noted that the 2005 data—see Table 12 below—for the same four measures had also been revised downwards since the *2007 Autumn Performance Report*.¹⁷⁷

Table 12

Indicator	2001	2005
Percentage of establishments that had introduced a new product, service or process improvement in the three years preceding the survey:		
product	18%	29%
process	15%	19%
Average percentage of turnover in establishments that was accounted for by new or significantly improved products and services in the three years preceding the survey	26%	41%
Percentage of establishments that were "innovation active" in the three years preceding the survey	48%	62%
Employment of qualified scientists and engineers in business	6%	7.4%
Proportion of businesses that collaborate with HEIs	2.6%	5.2%

85. We asked DIUS why the 2005 data in the *Departmental Report* had been changed and in July 2008 DIUS replied:

The UK Innovation Survey is a relatively young survey, and its sectoral coverage is still being developed: it has therefore been slightly different for each iteration of the survey. In order to make like-for-like comparisons between surveys, it is necessary to restrict the analysis to just those industry sectors that are common to both. Previously, the 2005 results were compared to the 2001 results, with just those sectors covered by both surveys being considered. In the latter report, the 2005 figures are being compared to the 2007 survey results, again with just those sectors common to

177 DIUS, *Autumn Performance Report December 2007*, p 12

both of these surveys being covered. Because of the changes within the common sectors between these two sets of comparisons, the results for the 2005 survey appear slightly differently in each. Rather than an actual revision, the change in the 2005 results between the two reports reflects merely a change in the basis for comparison.¹⁷⁸

86. On the second occasion we pressed on the conclusions to be drawn from the fact that four out of the six “innovation in the market” indicators showed a decrease between 2005 and 2007. We set out in full the response from DIUS:

Individual indicators such as the share of firms who bring in new products or processes can vary over time, for example with the state of the market. The 2001 survey, covering the reference period 1998–2000, showed that 18 per cent of businesses were product innovators and 15 per cent were process innovators, well below the levels recorded by the 2005 survey for the reference period 2002–2004.

The indicator of innovation intensity—share of sales of innovative products—was on the other hand considerably higher in the latest survey (covering the reference period 2004–6) than in the 2005 survey.

But firms may be investing in future innovation, without bringing in new products and processes over the same period. The UK Innovation Survey covers this aspect through firms’ spending on R&D, acquiring knowledge from others, training staff, and on design and marketing. The indicator for the share who are “innovation active” includes those making such preparatory investments, as well as product and process innovators, and is substantially higher in the latest 2007 survey.

This is the summary market innovation measure that features in the smaller number of indicators selected for the latest Science and Innovation Public Service Agreement.

On balance, therefore, these indicators do not show that the UK is becoming less innovative but are a basis for cautious optimism about the underlying innovation capability of the economy.¹⁷⁹

87. We have already commented on our concerns about the use of statistics in the *Departmental Report* at chapter 2. Those concerns were heightened when we scrutinised DIUS’s targets on innovation. As a Committee we have taken DIUS’s targets seriously and at face value. We have now been told—as noted above—that the basis of the calculation on which one target announced in 2004—that public and private investment in R&D should reach 2.5% of GDP by 2014—is to be revised. Moreover, although four out of six “innovation in the market” indicators set out in the *Departmental Report* point to less innovation, DIUS drawing on data from a “reference period” not reproduced in the Report and highlighting those indicators pointing to greater innovation concluded that the correct interpretation was “cautious optimism” that we were becoming more innovative as a country. **We recommend that DIUS set out clearly and consistently the basis on which its targets are calculated and measured with the baseline data, and we re-iterate our**

178 Ev 68, para 3

179 Ev 76, section 7

recommendation that its collection, use and interpretation of statistics be reviewed independently. We found this exercise frustrating as DIUS shifted the basis of the calculation of the measures and revealed baseline data not included in the tables or commentaries in the *Departmental Report*.

88. In the 2007–08 session we took evidence from the National Statistician¹⁸⁰ and the production of statistics is an issue in which we have taken considerable interest. We intend to send a copy of this Report to the UK Statistics Authority drawing our conclusions to its attention.

6 Further education and skills

Further education colleges

89. DIUS is responsible for further education of those over 19 years of age (DCSF is responsible for those under 19) and it plans to spend £4.9 billion on further education and skills in 2008–09,¹⁸¹ most of which is spent through the Learning and Skills Council. As the *Departmental Report* recognises “the major challenge for DIUS is to develop and establish a new post-19 system”,¹⁸² given plans to replace the Learning and Skills Council with a “streamlined Skills Funding Agency, the National Apprenticeship Service, the Adult Advancement and Careers Service and the National Employer Service”.¹⁸³

90. The Secretary of State said that DIUS was “raising all the time the status of further education and something we have done a lot of over the last year” is to make it clear not just that “we value the core educational role of further education, but we value the role that further education colleges in particular play within local communities.”¹⁸⁴ He asserted that he had “probably been more explicit than any Secretary of State for a long time in acknowledging the huge role that local colleges play as community leaders, as places of social capital”.¹⁸⁵ He drew attention to Colleges Week “where for the first time we are actually officially celebrating the role of colleges specifically within the [further education] system”.¹⁸⁶

Self-regulation of colleges

91. The *Departmental Report* explained that DIUS and its “partners” in the further education system were achieving administrative savings that could be redirected into frontline services, which were the result of reductions in audit, planning and reporting requirements on colleges and providers, as well as a reduction in the number of intermediary organisations. In a further move towards simplification and self-regulation, further education colleges were able to offer their own qualifications and become awarding bodies, with some going on to award Foundation Degrees.¹⁸⁷ When he gave evidence, the Secretary of State explained that he would like to see a continued move towards greater levels of self-regulation within the college system. He identified as a crucial issue the extent to which the sector itself “takes responsibility for poor performance and the extent to which that remains with us, and I think that that is an issue that is not yet resolved.”¹⁸⁸

181 *Departmental Report*, p 99

182 *Departmental Report*, p 45

183 *Departmental Report*, p 45 and Department for Children, Schools and Families and Department for Innovation, Universities and Skills, *Raising Expectations: enabling the system to deliver*, Cm 7348, March 2008, para 30

184 Q 193

185 As above

186 As above

187 *Departmental Report*, p 66

188 Q 192

92. We welcome the Secretary of State's commitment to further education colleges. We intend to watch developments in the sector carefully.

Train to Gain

93. As part of its strategy for skills in England in 2005, the Government announced the introduction of a National Employer Training Programme known as *Train to Gain*.¹⁸⁹ Its aims are to raise skills levels to help the UK respond to increasing global competition and to help improve social inclusion. *Train to Gain* offers training and assessment designed for employers and delivered to suit their operational needs, often in the workplace. Business support services, including an advice service on training provision, are provided for employers through a skills brokerage service. A particular target for *Train to Gain* is that of "hard to reach" employers.¹⁹⁰ The *Departmental Report* said that, since it had gone national in August 2006, the *Train to Gain* programme "has already made huge progress. Over 82,000 employers are now engaged with the programme (75 per cent of whom were classified as 'hard to reach')".¹⁹¹ The forecast expenditure on *Train to Gain* in 2007–08 was £331 million and the budget for *Train to Gain* in 2008–09 is £657 million rising to £1,023 million in 2010–11.¹⁹²

94. There has been criticism of *Train to Gain*. In September 2008 David Collins, President of the Association of Colleges, wrote:

Train to Gain was never going to be an unqualified success. Skills development rather than full-level qualifications was what employers wanted, and the scheme's lack of flexibility meant a limited take-up was inevitable.

Surrounded by bureaucracy, beset by a brokerage system that never worked, and without any real employer enthusiasm, it was impossible for the "demand-led" system to deliver on the scale anticipated. This wouldn't have been a problem were new money involved. But no. Train to Gain funding came from reductions elsewhere in the [further education] budget—most of it by removing previously funded qualifications that were in demand from adults. The net result has been the reverse of what was intended. Far fewer people now obtain relevant skills or qualifications than before.¹⁹³

95. We are not in this Report examining the operation of the *Train to Gain* programme. But we found in scrutinising DIUS's financial management a resonance to these criticisms. In 2007–08 and in 2008–09, as we have noted in chapter 4, DIUS was able to transfer unused resources from the provision for further education and skills. During our inquiry we noted three occasions on which underspends on further education and skills arose.

a) DIUS's audited accounts for 2007–08 showed that DIUS spent £284 million less on its grant to the LSC in 2007–8 than planned. The accounts also showed that it spent £128

189 DfES, *Skills: getting on in business, getting on at work*, Cm 6483, March 2005

190 Ofsted, *The impact of Train to Gain on skills in employment*, November 2008, paras 1-2

191 *Departmental Report*, p 60

192 *Departmental Report*, p 113

193 "The Great Train to Gain Robbery", *Times Education Supplement*, 5 September 2008

million more on higher education support for students in 2007–08 than was in its estimate (£1,889 million compared to £2,017 million).¹⁹⁴ DIUS explained:

- i. The DIUS 2007–08 Resource Accounts reported an underspend in 2007–08 of £172 million on the Further Education and Skills budget. The Accounts also show an overspend on Higher Education expenditure of £128 million. A transfer of £116 million was therefore made from Further Education and Skills to Higher Education in 2007–08 to address the overspend.
- ii. Of the £116 million transferred, £67 million was temporarily made available from Further Education and Skills to Higher Education. This relates to payment made to students for the third academic term (these payments were made within the 2007–08 Financial Year as a result of Easter falling earlier than usual). The remaining £49 million was a permanent transfer from Further Education and Skills to Higher Education in 2007–08.

The budget for these payments has now been allocated to Higher Education within the 2008–09 Financial Year and the £67 million has been reallocated to Further Education and Skills budgets.¹⁹⁵

- b) The second occasion also arose in 2007–08. DIUS explained that in response to emerging underspends in 2007–08, the Learning and Skills Council (LSC) made payments in 2007–08 to meet commitments that would normally have fallen in 2008–09. This reduced the required spend on some LSC budgets in 2008–09, allowing the flexibility to invest £115 million in additional further education and skills priorities in 2008–09 including, DIUS said:

- Our leadership and management offer in Train to Gain for small and medium sized businesses.
- Enabling adult learning providers such as WEA to continue to offer provision that contributes to the wider adult learning offer.
- Supporting adult learners to gain employability skills.
- Ensuring the continued roll out of National Skills Academies.
- Funding pathfinder Networking Projects designed to unlock the talent of the FE workforce to drive business innovation through knowledge transfer.
- Supporting an additional 1,200 adult apprenticeships in the best training companies as announced through WorkSkills in June this year.
- Expanding Level 3 pilots focused on removing barriers to training.¹⁹⁶

194 *Department for Innovation, Universities and Skills Resource Accounts 2007-08*, HC (2007-08) 864, p 53

195 Ev 78

196 As above

c) The third occasion was in 2008–09. On 21 October 2008 the Secretary of State announced that small businesses would be the focus of £350 million of Government funds to help them train their staff. While in this case the resources remained within further education and skills, it appears that there was flexibility or spare resources within the further education and skills programmes to switch to and meet a need not previously planned within the budget.¹⁹⁷

96. The changes in the budgets for further education and *Train to Gain* in particular have led us to the view that take-up of the programme may not have been as high as the Government expected. We found some corroboration in the recent Ofsted report, *The impact of Train to Gain on skills in employment*, which recommended that DIUS:

- explore other mechanisms for providing incentives to employers to drive employer demand for training;
- develop and implement strategies for increasing the number of people who are trained and competent to develop skills for life in adults; and
- develop and implement strategies for increasing uptake in skills for life training with employers.¹⁹⁸

97. It appears that a significant part of the provision for further education and skills, and for *Train to Gain* in particular, in 2007–08 and 2008–09 has not been spent and has been used to meet both temporary and permanent shortfalls in other DIUS programmes. We would be concerned if a central flagship policy of the Government's skills programme—*Train to Gain*—were persistently raided. We recommend that in responding to this Report DIUS provide a full account of financial transactions to, and from, (including any change in the definition of training used) the budget for *Train to Gain* in 2007–08 and 2008–09 and that future departmental reports set out, and account for, *Train to Gain* separately. The accounts should also provide a commentary explaining the reasons for transfers to, and from, the budget for the programme indicating separately temporary “loans” to, and repaid from, other DIUS programmes and permanent transfers from the *Train to Gain* budget to other programmes.

197 HC Deb, 3 Nov 2008, col 179W

198 Ofsted, *The impact of Train to Gain on skills in employment*, Ref no: 070250, November 2008, p 6

7 Higher education

Introduction

98. In 2008–09 DIUS will be responsible for public expenditure of £14 billion¹⁹⁹ on higher education, most of which will be spent via the Higher Education Funding Council for England (HEFCE). As the *Departmental Report* points out, the higher education system makes an enormous contribution to the economy of this country. Across the UK, it operates on an annual turnover of over £17 billion and employs 340,000 people. According to Universities UK, economists have estimated that (both directly and indirectly) UK higher education institutions stimulated activity that was worth £42 billion to the economy, plus over £3 billion in export earnings.²⁰⁰ DIUS said that the English higher education system was currently teaching many more students—from more varied backgrounds—than ever before. And institutions' sources of income had broadened, almost across the board with core government funding providing less than half the total.²⁰¹ DIUS said that record numbers of students were applying to higher education every year (307,000 applicants from England were accepted for entry in 2007) and the total number of higher education students in England had increased by approximately 18% since 1997—to 1.9 million in 2006–07. The supply of graduates had also been steadily rising—from 259,000 in 1997 to 319,000 in 2007.²⁰²

Effects of the economic downturn

99. We asked DIUS about the effect of the economic downturn. Mr Watmore told us that DIUS had to make “the case for further investment in [...] higher and further education and training [...] through the public communication channels and through the very hard evidence base that supports [it] because [...] we see ourselves as the department for the talent and innovation agenda for the country”²⁰³ and, referring to large capital projects supported by DIUS, the Secretary of State said that the Government's intention was “to maintain the capital programme.”²⁰⁴ On the effects of the collapse of a number of Icelandic banks on the financial viability of higher education institutions, Mr Watmore said that HEFCE was monitoring the risk and that it was “not in any way seen to be extreme at this point.”²⁰⁵

100. More generally, DIUS has seen universities helping to drive local economic and social regeneration and has pointed out that economists estimated “that every extra job a university creates is matched by another elsewhere in the economy”.²⁰⁶ Commenting on

199 *Departmental Report*, p 99

200 Quoted at *Departmental Report*, p68, which cites Universities UK (UUK), *The Economic Impact of Higher Education Institutions*, May 2006

201 *Departmental Report*, p 68

202 *As above*

203 Q 212 [Mr Watmore]

204 Q 218

205 Q 84

206 “Regions rise to the new university challenge”, DIUS News Release, 20 November 2008

the announcement of 27 areas in England interested in establishing new higher education centres, the Secretary of State said: "In these challenging economic times never have universities and colleges been more important to education, economic development, regeneration and the cultural life of our rural areas, towns and cities. It is my ambition to build on the successes of the last few years which have seen new centres of higher education transforming local economies and the lives of local people."²⁰⁷ Following publication of the 2008 Pre-Budget Report the *Financial Times* quoted the Institute for Fiscal Studies as saying that public spending would be cut by £37 billion. The *Financial Times* explained that the

drive to bring forward capital spending to tackle the recession will increase public spending this year and next. But as a result spending will be smaller than planned in 2010. [...] From 2011, however, the government has virtually halved the planned rate of spending growth set out in the Budget earlier this year. The reduction to 1.1 per cent a year in real terms has led to a total cumulative cut on previous plans of £37bn between 2010–11 and 2012–13.²⁰⁸

101. We shall continue to monitor the effects of the economic downturn. We are particularly concerned about the impact of the downturn on the provision of, and planning for, places at higher education institutions which are heavily dependant on public sector employment such as nursing, medicine, and other professional degrees, especially given indications of rapid slowdown in departmental spending growth under the 2008 Pre-Budget Report.

Sale of student loans portfolio

102. The Government announced in its 2007 Budget that it was planning a programme of student loan sales. These were intended to raise £6 billion between 2008–09 and 2010–11.²⁰⁹ Sales of the student loan portfolio were previously conducted in the late 1990s under the Education (Student Loans) Act 1998 and in two sales in 1998 and 1999 a total of around £2 billion worth of fixed rate or mortgage-style loans were sold.²¹⁰ The Sale of Student Loans Act 2007 enables the Secretary of State to resume sales of the student loan portfolio.²¹¹

103. Mr Watmore said that it was "clearly not possible to sell the Student Loan book in today's capital markets."²¹² Although the value of the loan book was recorded in DIUS's resource accounts, he explained that any cash raised from the sale would go "straight to the

207 "Regions rise to the new university challenge", DIUS News Release, 20 November 2008

208 "IFS points to risk of public services cuts", *The Financial Times*, 26 November 2008

209 HM Treasury. *Budget 2007. Economic and Fiscal Strategy Report and Financial Statement and Budget Report*, HC (2006-07) 342, para. 6.42

210 HC Deb 5 March 1998 cols 748-50w

211 New legislation was necessary to carry out the sales as the earlier provision only applied to mortgage-style loans and was repealed when mortgage-style loans were replaced by income-contingent repayment loans in 1999.

212 Q 86

Treasury; it does not come into our account”²¹³ and that a sale would cause DIUS's accounts to be adjusted “because we will have to revalue the assets”.²¹⁴

Reviews of higher education

104. In a speech to Universities UK in September 2008 the Secretary of State pointed out that “many people[’s ...] cultural activities, businesses, public services depend on the success of our universities. [...] So I thought we should complement the work being done within the sector with what I hope will be equally challenging and provocative work from outside the sector”.²¹⁵ He explained that seven reviews would therefore be set up, which are set out in Table 13 below.

Table 13

Framework for the development of higher education reviews	
1. Research and technology transfer	John Chisholm, chairman of QinetiQ and the Medical Research Council
2. Public sector	Tom Russell, head of the London Development Agency's Olympic Legacy Directorate
3. Online learning	Sir Ron Cooke, former chair of the Joint Information Systems Committee
4. Arts and culture	Nick Hytner, director of the National Theatre
5. Business	John Griffith-Jones, joint chairman and UK senior partner of KPMG Dame Marjorie Scardino, a member of the Prime Minister's Business Council of Britain, and chief executive of Pearson Anthony Lilley of Magic Lantern, a small business in the creative sector
6. Student views	The National Student Forum
7. Overseas	Thirumalachari Ramasami, secretary to the Indian Department for Science and Technology

105. When he gave evidence, the Secretary of State explained the background to the reviews. He pointed out that the fees policy and the financing of higher education would be reviewed in 2009 and he was keen to make sure that that debate took “place against a clear background of understanding what we want from the higher education system.”²¹⁶ He saw the “real question” as “how do you maintain a world-class higher education system in 15 years' time.”²¹⁷ He said that in every country that aspired to be “advanced and influential, higher education is going to be more important” and so those countries over the next 15 years will be investing money “and, therefore, we have to ask the question: what would our system look like and, therefore, how do we finance it?”²¹⁸ He explained the review process:

213 Q 89

214 Q 90

215 “John Denham - UUK Annual Conference, Cambridge”, DIUS News Release, 11 September 2008

216 Q 149

217 Q 150

218 As above

we looked at areas first where policy had not been looked at recently and we invited people from within the university sector, mainly vice chancellors, to produce think pieces, provocative pieces about international higher education, about the quality of the student experience, [...] and so on. Having done that work, which I think is very good [...] we then thought, “Well, we should probably get some people who are outside the university system to tell us what their expectations would be”, so we went for somebody from the arts and cultural world, like Nick Hytner, we went for John Chisholm, we went for [...] the Permanent Secretary in the Indian Ministry of Science and Technology because we thought it would be useful to have an overseas view of what they were looking for from our system.²¹⁹

106. We conclude that DIUS is right to consider how higher education will look in ten to 15 years and we intend to play a full part in the debate on the future of higher education next year. We launched an inquiry on 30 October into students and universities, which will focus on: (a) admissions; (b) the balance between teaching and research; (c) degree classification; and (d) student support and engagement.

Degree classification

107. When we took evidence from Peter Williams, Director of the Quality Assurance Agency, in July 2008 he stood by his previously-reported comments that the degree classification system was “rotten”.²²⁰ When he gave evidence, the Secretary of State explained that degree classification was “primarily and fundamentally a question for the universities themselves”, though ministers had a role “sometimes in stimulating debates about issues and in challenging the sector to confront an issue”.²²¹ He said that, if ministers started trying to determine these things from the centre, “we will get into a much worse position than we are in at the moment.”²²² He noted that 18 universities were trialling “extra information to see how that goes” and that the “unknown question” was for the employers and other people who read those reports, “will that turn out to be useful, that the focus is less on the narrow classification of the degree, or is the demand out there still going to be for a simple classification of degree?”²²³ **We conclude that the Secretary of State was right to raise the issue of degree classification, and this is an issue we shall examine in our inquiry into students and universities in 2009.**

Widening participation

108. DIUS is committed to widening participation in higher education²²⁴ and has inherited a target, via DfES from the 2004 Comprehensive Spending Review, to raise and widen participation in higher education.²²⁵ The Secretary of State said that his “overall target is to

219 Q 149

220 Oral evidence taken on 17 July 2008, HC (2007-08) 905-i, Qq 45-47

221 Q 158

222 As above

223 As above

224 *Departmental Report*, p 70

225 *Departmental Report*, p 91; Department for Education and Skills PSA 14

get the participation rate of 18 to 30-year-olds to 50 per cent, ie, by the age of 30, 50 per cent of the cohort will have participated in higher education.”²²⁶ Given the disparities of participation rates by socio-economic groups he considered that, in order to achieve that target, the growth would come from the lower socio-economic groups.²²⁷

109. In the *Departmental Report* DIUS reported that it was “on course” to meet the target.²²⁸ There are three elements it uses to measure progress which are set out in Table 14 below.

Table 14

Element 1: Increased participation in higher education

Current position

Baseline: 39 per cent in 1999/2000

Latest outturn against trend: 40 per cent in 2006/07

Commentary: The participation rate of 18–30-year-olds—the Higher Education Initial Participation Rate (HEIPR) for 2006/07—is 40 per cent, down from the final figure for 2005/06 of 42 per cent. The fall in the HEIPR was expected. It is due to a large increase in entrants in 2005/06 prior to the introduction of variable fees in 2006/07, and a dramatic increase in the underlying 18–30 population. We expect the position to recover next year, reflecting the latest data from the Universities and Colleges Admissions Service, which shows that students accepted for entry in 2007 are up by 6 per cent and the latest applicant figures for 2008 entry are also up by 6 per cent.

Element 2: Progress towards fair access to higher education

Current position

Baselines:

- 1) state sector: 84.1 per cent in 1999/2000
- 2) lower socio-economic classes (NS-SEC): 27.9 per cent in 2002/03
- 3) low participation neighbourhoods (LPN): 11.7 per cent in 1999/2000

Latest outturn against trend:

- 1) state sector: 86.9 per cent in 2005/06
- 2) NS-SEC: 29.1 per cent in 2005/06
- 3) LPN: 13.5 per cent in 2005/06

Commentary: The performance indicators are all at their highest ever levels since they were first collected. But they are still lower than we would like, so fair access to higher education remains a priority for the Government. This is reflected in the CSR07 PSA to narrow the gap in educational achievement between children from low income and disadvantaged backgrounds and their peers, which includes a key performance indicator to narrow the gap between the rates of initial participation in full-time higher education for young people aged 18, 19 and 20 from the top three and bottom four socio-economic classes. Between 2003–04 and 2005–06 this gap has closed by 3.5 percentage points.

Element 3: Bear down on rates of non-completion

Current position

Baseline: 15.9 per cent in 1999/2000

Latest outturn against trend: 13.8 per cent for English HEIs in 2004/05

Commentary: Student retention rates in this country compare very well internationally, a fact acknowledged in a recent National Audit Office study into retention in higher education. The UK ranks fifth in the OECD for first degree completion rates, out of the 23 countries that report data in this area. Non-completion also remains a priority for the Government; however, it is not a key indicator for the CSR07 PSA to improve the skills of the population, on the way to ensuring a world-class skills base by 2020. The PSA contains an output measure, in the form of increasing the proportion of the workforce with higher-level skills, and as such the separate focus on non-completion within the PSA is not needed—because students who do not complete will not count towards the target’s achievement. We will, however, continue to calculate and publish non-

226 Q 166; see also *Departmental Report*, p 91

227 Q 167

228 *Departmental Report*, p 91

completion rates as one of a number of performance measures that do not form part of the PSA.²²⁹

110. We have already commented in chapter 2 on DIUS's use of statistics in respect of Element 2 and we have noted that the improvements which DIUS has claimed may be open to some doubt. We also have concerns that the new PSA target agreed in Comprehensive Spending Review 2007 (CSR 07)—to improve the skills of the population on the way to ensuring a world-class skills base by 2020²³⁰—not only shifts the target date ten years further into the future but also widens the objective from participation in higher education to the more general improvement of the skills of the population. We also have concerns that DIUS may be reducing the focus on Element 3—rates of non-completion—because these rates are not a key indicator for the CSR07.

111. We share the Secretary of State's objective to wider participation in higher education and we welcome the emphasis that he has placed on the issue. We are concerned that as a result of the new targets and measures agreed from the 2007 Comprehensive Spending Review the previous emphasis on widening participation will be lost. We recommend that in responding to this Report DIUS set out in detail how it will measure and report on widening participation over the next five years. In addition, we recommend that future departmental reports set out, and report on, the three elements used to measure progress on the 2004 Comprehensive Spending Review target to raise and widen participation in higher education.

Higher Education Funding Council for England

112. The Higher Education Funding Council for England (HEFCE) distribute £7.4 billion of public money in 2008–09²³¹ for teaching and research to universities and colleges. With the establishment of DIUS finance for teaching and research became the responsibility of a single department; previously DfES supported teaching and DTI research. As there had been some speculation about the future of HEFCE²³² we asked the Secretary of State, about its future. He denied that it would be wound-up.²³³ He said that he had

no significant, or even minor actually, changes planned for HEFCE. Its role is crucial between government and the autonomously led universities and, without that, a huge range of decisions will come back to government that we would not want to take and which we should not be taking, so HEFCE has a hugely important role for the sector and for government, and we will do nothing to upset that.²³⁴

113. We have no doubt that with the greater emphasis that the Government has placed on skills and implementing the recommendations in the Leitch Report²³⁵ and the changing

²²⁹ *Departmental Report*, pp 91–92

²³⁰ *Departmental Report*, p 92

²³¹ *Departmental Report*, p 128

²³² For example, "DIUS Year: 1. Shows willing but could do better ...", *Times Higher Education*, 31 July 2008

²³³ Q 157

²³⁴ Q 156

²³⁵ HM Treasury, *Leitch review of skills: Prosperity for all in the global economy—world class skills*, Final report, 2006

nature of higher education provision with the tie-in to regional economic and sub-regional strategies on skills the effectiveness of HEFCE is going to be crucial. HEFCE will also have to work closely with the further education sector, the Learning and Skills Council and its successor bodies. **We intend to monitor the development of higher education sector, and the work of HEFCE, closely.**

8 Science

Science in DIUS

114. We asked the Secretary of State whether responsibility for science was better in DIUS or, as previously, in DTI/BERR. He saw synergies in having science within DIUS. He pointed out that, first, separation of science from DIUS would mean for universities the division of education and teaching policy from research policy so “that no university could engage with one government department over the whole of its activities—in innovation, research and teaching”.²³⁶ He said that since DIUS was set up universities could do that so “we have a better fit”.²³⁷ Second, he considered that because science was “clearly located in a department which brings together many of the elements that we need for competitive and prosperous policies from research, from innovation to skills” there was “coherence and a join between them that was not there previously”.²³⁸ Professor John Beddington, Government Chief Scientific Adviser, considered that the movement of science from DTI/BERR into DIUS was “the appropriate one”.²³⁹ He pointed out that that he worked closely with the Director General of Science and Research at DIUS and he considered that “intimacy of working is really helpful”.²⁴⁰ He also said that it was “important to be able to link in with the directors general of the research councils and the chief executives of the research councils in an intimate way, and also to be able to link in essentially with the innovation agenda”.²⁴¹

115. Our predecessor committee, the Science and Technology Committee, recommended the relocation of the Government Chief Scientific Adviser’s office to the Cabinet Office.²⁴² We asked Professor Beddington if reporting to both the Prime Minister as the Government Chief Scientific Adviser as well as the Secretary of State of DIUS caused problems or tensions in terms of the departmental responsibilities. He replied:

There is a potential tension but I do not think there is one in actual fact. Essentially, we use DIUS as our landlord. We have a floor within DIUS. The salaries and rations and so on are managed by the DIUS organisation, but my reporting line is completely clear; it is to the Prime Minister and Cabinet and at a personal level to the Cabinet Secretary. We have to have a clear degree of autonomy from DIUS; I have to have the ability to challenge the science that DIUS is actually doing. That autonomy is preserved by the current arrangements. Of course I talk to the Secretary of State and Lord Drayson [Minister of State for Science and Innovation ...] on a regular basis but my reporting responsibilities are quite clear.²⁴³

236 Q 200

237 As above

238 As above

239 Q 228

240 As above

241 As above

242 Seventh Report of the Science and Technology Committee, Session 2005–06, *Scientific Advice, Risk and Evidence Based Policy Making*, HC 900, para 25

243 Q 229

116. We can appreciate that a significant part of Professor Beddington's work may require contact with bodies such as research councils for which DIUS has responsibility. But equally significant amounts concern other departments—for example, he told us that following up the Foresight report on obesity required working closely with the Department of Health.²⁴⁴ As he also pointed out, DIUS acted as a “landlord”, a function that does not, in our view, have to be carried out by DIUS. **We conclude that, while the links between the Government Chief Scientific Adviser and DIUS are useful, they are not such to lead us to revise the Science and Technology Committee's recommendation that the Government Chief Scientific Adviser should be based in the Cabinet Office.**

Role of Government Chief Scientific Adviser

117. Professor Beddington became Government Chief Scientific Adviser in January 2008 and explained that the way in which the Government Office for Science (GO-Science) was operating was “slightly different” from the time his predecessor, Professor Sir David King, was in charge. He emphasised the collegiality and the fact that he had a team of chief scientific advisers across government who worked closely together. He considered that they were “working at a number of levels that is relatively new”, citing the example of biofuels where the Department for Transport had commissioned a report, which the

team of chief scientific advisers that I led added peer review (it was a critical friend of that report) to develop it. That brought in chief scientific advisers from [the Department for International Development], Transport and from [the Department for Environment, Food and Rural Affairs] to work together in this team and interact with the Gallagher group to produce what I think was a reasonably good and improved document from our input.²⁴⁵

He added that he would be setting out the “aims of GO-Science, how we intend to operate, and that will be published [...] before the end of the year.”²⁴⁶ The report had not been published by the time we completed our deliberations.

118. We asked Professor Beddington about his profile in the media and whether it had been as high as that of his predecessor and whether or not that was a good thing. He considered that if

you are going to have an impact, you have to have an impact at a number of levels. Some things require a fairly high media profile. In one of the areas, particularly highlighting the issues of food security and the related issues to food security of energy security, water security and so on and the link with climate change, I think I have been relatively high profile. [...] In other areas I think it is more effective to discuss with the appropriate members of government—appropriate Ministers or with Permanent Secretaries or scientific colleagues. I would expect in the future that issues will arise where I will seek to have a substantial media profile.²⁴⁷

244 Q 274

245 Q 232

246 As above

247 Q 227

119. When he gave us evidence previously, on 12 December 2007, Professor Beddington explained his role as ensuring that:

the Government gets the best possible scientific advice, that where there is uncertainty, that is characterised, where there is risk, that is characterised, but I see my job as really trying to ensure that, when a new policy is made, it is based on the best possible scientific advice that is available at the time. Now, at some stages, there may well be contradictions between scientific advice and other policy imperatives, and that is taken as understood, but I think my central role is to do that and that is what I will try to do.²⁴⁸

With this description of his role in mind, when he gave evidence in November 2008, we asked Professor Beddington about two matters: the Government's decision to reclassify cannabis; and the scientific evidence supporting homeopathic treatments.

Reclassification of cannabis

120. On the reclassification of cannabis from a Category C to Category B drug, Professor Beddington said that "science can provide advice [...] but scientific evidence is just one part of the decision process. One should look at scientific evidence; one should assess it; and then you should also look at other factors, economic and social, in making that decision."²⁴⁹ As he had not looked at the matter in detail at the time he followed-up with a written memorandum in which he said:

In reaching a decision on the classification of cannabis, I am satisfied that Ministers sought and considered sound scientific advice. The Government consulted the Advisory Council on the Misuse of Drugs (ACMD) which provides independent scientific advice on the harm to society and individuals posed by specific substances. In May the Council recognised that the most worrying individual harms are the effects on mental health, but recognised that evidence on this issue is confused. It found clearer evidence about the social harms (such as impaired driving skills) associated with cannabis, but little real evidence that cannabis is a significant cause of acquisitive crime or of anti-social behaviour. The majority of Council members, having weighed up the evidence available, took the view that cannabis should remain a Class C drug because its harmfulness more closely equates with other Class C drugs than with drugs in the Class B category. However, a minority were concerned about the effects of cannabis on the mental health of users and supported reclassification to Class B.

In the absence of factors other than the scientific advice it would have been appropriate for the Home Secretary to take the view that cannabis should remain in class C. However, scientific advice is not the only factor that Ministers take into account when reaching decisions. In this case, I understand the Home Secretary also considered evidence on wider issues including public perceptions and the needs and consequences for policing priorities. These are issues which the Advisory Council

248 Oral evidence taken on 12 December 2007, HC (2007-08)116-1, Q 4

249 Q 261

made clear it was not able legally to take into account in advising on the classification of substances.

The Government accepted the other 20 of the 21 recommendations made by the ACMD in relation to cannabis, including those on research to improve the evidence base available for policy making and treatment.

More generally, I recognise that there is a relatively limited evidence base to inform policies on drugs and associated issues such as mental health. The recent Foresight report on Mental Capital and Wellbeing and the report by the Academy of Medical Sciences on Brain Science, Addiction and Drugs provide some helpful suggestions on how to address this. I shall take a close interest in how they are taken forward.²⁵⁰

Homeopathic treatments

121. We asked Professor Beddington, in November 2008, whether he considered that the National Health Service should spend money on homeopathic treatments.²⁵¹ He replied:

It depends on the extent of the placebo effect[...] It is not just in terms of homeopathy, but, I suppose, less conventional medicines. There does seem to be some evidence that they are effective. In terms of homeopathy [...] I see no evidence beyond the placebo effect that it works. [...] I can make that point to government and say that there is no evidence that homeopathy works. The decision on whether you wish to fund homeopathy as part of the National Health Service has other factors which are beyond science.²⁵²

I think this is more policy than science[...] I am quite firm with this. I see no scientific evidence that homeopathy has an effect beyond the placebo effect. The question that [...] is a reasonable one, but I think it is possibly better posed to the Department of Health rather than me.²⁵³

122. We found Professor Beddington's statements equivocal compared to those of this predecessor, Professor Sir David King, who stated in evidence to us in December 2007:

The issue of homeopathic medicine leaves me completely puzzled. How can you have homeopathic medicines labelled by a department which is driven by science? There is not one jot of evidence supporting the notion that homeopathic medicines are of any assistance whatsoever; therefore, I would say they are a risk to the population because people may take them expecting that they are dealing with a serious problem.²⁵⁴

123. After the evidence session in November 2008, we asked Professor Beddington for a note on the statements that the Department of Health (DH) had made on the adequacy of

250 Ev 89, section iv

251 Qq 294-303

252 Q 295

253 Q 296

254 Oral evidence taken on 5 December 2007, HC (2007-08) 115-i, Q 28

scientific evidence to support homeopathic products and the extent to which evidence based on such products had informed policy-making at DH. We set out the contents of the note²⁵⁵ Professor Beddington supplied at some length:

The evidence base [for the provision of homeopathic treatments by the National Health Service] is sorely lacking, but this is [an] area where wider factors than science may be relevant. For example, there is considerable public interest in complementary therapies and it is estimated that in any year 11% of the adult population visit a complementary therapist for one of six named therapies including: acupuncture, osteopathy, chiropractice, herbal medicine, hypnotherapy and homeopathy.

Homeopathy has been funded by the NHS since its inception 60 years ago. It is used by patients for a wide range of acute and chronic physical and emotional illnesses, and to provide palliative care where a condition is beyond the scope of the body's normal self-repair mechanisms. Until very recently, there were five NHS hospitals specialising in homeopathic treatments, although one has recently closed.

In my evidence, I said that I knew of no scientific evidence that homeopathy has an effect, beyond the placebo effect. I have since learned of some qualitative evidence that suggests that homeopathy may be effective in treating certain conditions, such as asthma,²⁵⁶ rhinitis and hayfever.²⁵⁷ There is also evidence of effectiveness in the treatment of influenza.²⁵⁸ However, the scientific basis of homeopathy remains highly questionable.

Complementary or alternative medicine (CAM) consultations tend to be more thorough and detailed than conventional medical consultations, focussing on the whole of the patient's life rather than their physical health alone. Such factors may well contribute to high levels of patient satisfaction with CAM treatments where they occur.

There is also the placebo effect. Studies have shown that patient expectations concerning a treatment, the patient's experience of the treatment and their attitude towards the healthcare provider can all affect the impact of a treatment. Despite a lack of understanding of the exact mechanisms through which the placebo effect may operate, research clearly shows that the effect exists and can have a significant impact on health. If a homeopathic treatment makes people feel better, whether that be through treatment specific effects or the placebo effect, then it could be considered as being worthwhile.

255 Ev 88, section ii

256 Reilly, D.T.Taylor, M.A., Beattie, N.G. et al. 1994, "Is evidence for homeopathy reproducible?", *Lancet* 344, 1601-1606

257 Reilly, D.T.Taylor, M.A., McSharry, C. et al. 1986, "Is homeopathy a placebo response? Controlled trial of homeopathic potency, with pollen in hayfever as model", *Lancet* 8521, 881 -886

258 Papp, R. Schuback, G. Beck, E. et al. 1998, "Oscillococinum in patients with influenza-like syndromes: a placebo controlled double blind evaluation", *British Homeopathic Journal* 87, 69-75.

DH, NHS Alliance, "National Association of Primary Care, Foundation for Integrated Medicine 2000, Complementary Medicine – Information pack for primary care groups"

Vickers, A., Smith, C. 2006, "Homoeopathic Oscillococinum for preventing and treating influenza and influenza-like syndromes", *Cochrane Database of Systematic Reviews* 2006, Issue 3. Art. No., CD001957. DOI: 10. 1002/14651858. CD001957. pu3)

The GO-Science Review of the Department of Health did consider the evidence base for the efficacy of homeopathic medicines. It was the subject of a peer review by the independent Steering Panel, carried out to inform and test the broad recommendations in the main report. The study concluded that the scientific basis for homeopathy remained highly questionable and recommended the key components of a programme of research to develop a stronger evidence base. Paragraph 3.16 of Annex 1 to the Review states–

“Homeopathic medicine was part of the NHS, so the scientific evidence for its effectiveness was clearly important. While the reviews of the published evidence were useful, the scientific basis of homeopathy remained highly questionable. A programme for a stronger evidence base would necessitate agreement between practitioners, patients and researchers on what should be evaluated, and on relevant endpoints. Flagship trials should be run in the most promising areas, chosen on plausibility, and patient demand. These should be well planned, including pre-defined agreement on what constitutes a minimally important clinical effect, and adequate resource, so that the results were clear-cut. Innovative methods may be needed, for example, if there was a waiting list, then randomisation is as fair a way as any of deciding who gets treatment. The difficulties in setting up such a programme robustly cannot be underestimated. The Health Technology Assessment Programme provided a framework that should be as applicable to research on homeopathy as to any other therapy.”

This supports the findings of the House of Lords Select Committee on Science and Technology Enquiry on complementary and alternative medicine in 2000, which recommended that money should be ring-fenced to develop the infrastructure for research into the effectiveness of homeopathy.

On the issue of DH statements on homeopathy and the evidence base supporting its use. I understand the Government does not maintain a position on any complementary or alternative treatment. Decisions on what type of treatments to commission and fund are the responsibility of the National Health Service with front line service providers judging the best treatment for an individual's circumstances, taking into account factors such as safety, clinical and cost effectiveness and the availability of suitably qualified / regulated practitioners.

Conclusions

124. First, this Report is not an appropriate vehicle to examine either issue in detail but we put on record our surprise at the evidence that Professor Beddington cited in respect of homeopathy, which is reproduced at footnotes 256 to 258 in our Report. We were surprised that Professor Beddington chose to offer a selection of papers purporting to provide evidence that homeopathy may be effective. This included an information pack for primary care groups, rather than the scientific papers on which the pack was based. He also cited the Vickers & Smith (2006) Cochrane Review on homeopathic efficacy in the treatment of influenza, when it concluded that it might "shorten the illness, but more research is needed", which appears a questionable reinterpretation of that review's results. If it was Professor Beddington's intention to correct his statement that "there is no evidence

that homeopathy works" we accept that it would be possible to find supportive pieces of evidence to support an opposite view. **We are concerned that on homeopathy Professor Beddington did not take the opportunity to restate the importance of the scientific process and to state that what was important was the *balance* of scientific evidence, which in the case of homeopathy, does not provide strong evidence that it has an effect, beyond the placebo effect. In both the case of cannabis reclassification and homeopathic treatments we are concerned that the Government Chief Scientific Adviser has not chosen to challenge departments where no evidence was produced.**

125. We found Professor Beddington's responses on the questions of the reclassification of cannabis and, to a greater extent, on the scientific evidence to support homeopathy showed a sharp contrast in approach to his job to that of his predecessor, Professor Sir David King, and to be out of step with the view he expressed before he took up his job in December 2007 that Government should get the "best possible scientific advice that is available at the time". **Professor Beddington is the Government Chief *Scientific* Adviser and we are surprised that rather than champion evidence-based science within government he appears to see his role as defending government policy or, in the case of homeopathy, explaining why there is no clear government policy. This is an issue we expect to return to in our inquiry "Putting science and engineering at the heart of government policy".**

Use of metrics

126. We also asked Professor Beddington about the metrics employed for evaluating the usefulness of the work done by the Government Chief Scientific Adviser. He considered that that was a matter which the Council for Science and Technology²⁵⁹ might consider and he undertook to pursue it.²⁶⁰ **We recommend that in responding to this Report the Government Chief Scientific Adviser explain what follow-up action has been taken by the Council for Science and Technology on the use of metrics for evaluating work done by the Government Chief Scientific Adviser.**

Government Office for Science annual report

127. The DIUS *Departmental Report* does not cover the Government Office for Science. Professor Beddington explained that the Government Office for Science was a "lodger" and that while "we work alongside DIUS [...] we are not part of the family".²⁶¹ He considered it would be "inappropriate" for the Government Office for Science to be "a substantial portion of [DIUS's] annual report".²⁶² He added that the Office would be producing a GO-Science report by the end of the year and that he would be "very keen to discuss that here with this committee [...] once that report is published."²⁶³

259 The Council for Science and Technology is the Government's top-level independent advisory body on science and technology policy issues. It has a UK-wide remit to look at issues that cut across government departments and it has a facility to engage in a wide range of policy areas. See <http://www2.cst.gov.uk/>.

260 Qq 258-59

261 Q 237

262 As above

263 As above

128. We assume that professor Beddington was not referring to the annual report 2008 on the Science and Innovation Investment Framework which was published in December 2008²⁶⁴ and that there will be a separate report on the activities of the Government Office for Science published shortly. **We agree with the Government Chief Scientific Adviser that it would not be appropriate for the Government Office for Science annual report to be included within the DIUS *Departmental Report*. We welcome that the Government Office for Science is producing a report on its activities. We recommend that Government Office for Science report annually on science across government.**

Science Review Programme

129. We raised with Professor Beddington the time that Science Reviews were taking. The Science Review Programme involves:

- d) reviewing existing departmental systems for assuring the quality, management and use of science;
- e) a close examination of the extent to which science and scientific advice consistently and effectively feeds into a department's strategy and policymaking; and
- f) identifying and disseminating examples of good practice from within the UK and abroad.²⁶⁵

130. Professor Beddington said that the time the reviews took was "ludicrous".²⁶⁶ He had taken part in the Review of the Department for Environment, Food and Rural Affairs and "it seemed to be going on forever."²⁶⁷ We note that the review of DEFRA was carried out between January 2005 to July 2006.²⁶⁸ He explained that soon after taking up his post he had

commissioned a review of reviews in co-operation with the Heads of Analysis Group and [had] commissioned a consultant [...] to come forward with recommendations on what was good and what was bad about the previous practice and to make recommendations about the future. The answer is that he has come forward with proposals which the Heads of Analysis Group have accepted and which I accept, too. The new reviews will be significantly shorter, maximum three months; they will be conducted in a completely different way from other reviews. They will be jointly owned by the Permanent Secretary of the department concerned and myself, and they will be driven at a very high level. There will be an immediate going in to look and see what are the key issue and if some things worry us, then we would start to look at those in more detail. [...] The pattern of reviews which we would then plan to start early in 2009 should mean that we will be able to get a lot more done; we will be

264 DIUS and HM Treasury, *Science and Innovation Investment Framework: Annual Report 2008*, December 2008

265 <http://www.berr.gov.uk/dius/science/science-reviews/page24572.html>

266 Q 243

267 Above

268 *Science Review of the Department for Environment, Food and Rural Affairs*, Office of Science and Innovation, 2006, para 1.4

using consultants to help us and we will be using a much higher level of professional input into these reviews.²⁶⁹

We welcome the Government Chief Scientific Adviser's proposals to speed up and streamline the Science Review Programme.

Haldane principle

131. The Haldane principle arises out of the Haldane Report, published in 1918, that examined the structure and function of the UK government science. The central thrust was that general research should be administered at arm's length from government departments. The creation of the UK's Research Councils has been seen as the embodiment of the Haldane principle.

132. In a speech on 29 April 2008 to the Royal Academy of Engineering the Secretary of State considered that the three fundamental elements of Haldane, as he enumerated them, remained entirely valid:

- that researchers are best placed to determine detailed priorities;
- that the Government's role is to set the over-arching strategy; and
- that the research councils are "guardians of the independence of science".

He said that "these should be the basis for Haldane today, and over the decades to come, and I am happy to re-state them".²⁷⁰

133. There has been criticism of the manner in which the Government has interpreted the principle. It has allowed the Government to have its cake and eat it: to let the Research Councils take criticism for difficult decisions, while the Government can exercise direction on spending decisions. In our report on the Science Budget Allocations published on 23 April 2008 we had "reservations about the influence Government appears to have on the use of the budget and the extent to which the Haldane Principle has been upheld".²⁷¹ We concluded that large "parts of the budget are tied to cross-council programmes that largely follow a Government agenda" and that, while it was acceptable for the Government to set priorities for UK research, it was not "for it to micromanage individual Research Council budgets".²⁷² We recommended that the Government "make clear its role in regional science policy and how this fits with the Haldane Principle".²⁷³ It also seemed to us to be a "breach of the Haldane Principle that the Government should direct a Research Council to switch funding from postgraduate awards to programme funding merely on the basis of it being

269 Q 243

270 "John Denham - Science funding Royal Academy of Engineering, London", DIUS News Release, 29 April 2008

271 Fourth Report of the Innovation, Universities, Science and Skills Committee, Session 2007-08, *Science Budget Allocations*, HC 215-I, p 2

272 HC (2007-08) 215-I, para 27

273 HC (2007-08) 215-I, para 77

out of step with other research councils, or indeed for any other reason".²⁷⁴ In its response Government rejected our points and drew attention to Mr Denham's speech of 29 April.²⁷⁵

134. In view of this exchange we returned to the Haldane principle, when the Secretary of State gave evidence on 29 October. We pointed out that the Government set up three new major institutes for research—the Office for Strategic Co-ordination of Health Research (OSCHR), the Technology Strategy Board (TSB) and the Energy Technologies Institute—which would set the direction on spending decisions. At the same time it appeared that the Government outlined six themes where research money should be dedicated²⁷⁶ and there had been a significant shift of research money in the Research Councils from responsive mode to programme research as a result of that.

135. In response, the Secretary of State referred back to his speech to the Royal Academy of Engineering when he has been "happy to restate the core principles of the Haldane Principle, but I pointed out three areas where I think inevitably in the modern world ministers will have a greater degree of engagement.

The first was in major projects; so, for example, the Camden Medical Research Centre would not happen if you just said to the [Medical Research Council] it is up to you to make it happen or not. You had to have engagement with ministers across government.

The second area is that I think it is legitimate for ministers to say, "Look, there are some very, very big questions in our society that we need research to help us answer: for example, climate change; the implications of an aging society and the other cross-cutting areas." I think that is one of those areas where, provided ministers are open about it and upfront about it, that is a reasonable contribution for us to make.

The third thing I think we were right to do [...] was that if you have an overall responsibility for science policy there are times when you will need to raise questions and initiate things. So, for example, [...] my decision to get the Wakeham Inquiry underway, which was taken before there had been any public criticism of the [Science and Technology Facilities Council] at all, it was just me looking at what they were proposing and saying, "This is going to raise lots of questions about the state of physics." So it was not for me to step in and say, "You cannot do this, STFC" it was my job to say, "This is going to kick off a debate about the state of physics," and we then found the mechanism for Bill to come in and do his report. [...]

So Haldane, I think we are respecting, but I am being very honest that in practical government terms in those areas of big projects of strategic priorities we have an input to make.²⁷⁷

274 HC (2007-08) 215-I, para 116

275 Sixth Special Report of the Innovation, Universities, Science and Skills Committee, Session 2007-08, *Science Budget Allocations: Government Response to the Committee's Fourth Report of Session 2007-08*, HC 639, paras 6-87, 34-38, 65, 71, 81, 113, 116

276 RCUK, "RCUK Delivery Plan 2008/09 to 2010/11"; the six themes are energy; living with environmental change; global threats to security; ageing: life long health and wellbeing; the digital economy; and nanoscience through engineering to application.

277 Q 203

136. We do not propose in this Report to reopen the debate about science budget allocations and we put on record that we do not necessarily share the Secretary of State's definition of the Haldane principle. We accept, however, that it is entirely reasonable for the Secretary of State to raise, and to suggest refinement, to the application of the Haldane principle 90 years after it was formulated. We hope that there is a debate on the application of the Haldane principle to scientific research in the 21st century and we expect that this is an issue we will return to in our inquiry "Putting science and engineering at the heart of government policy".

9 Conclusion

137. DIUS is a new department charged with responsibilities to improve science, research and innovation and to foster economic development. The results of its work may take years, if not decades, to realise. It is early days and we reach no view on the likely outcome of its work and it is too early to say whether DIUS is delivering the objectives the Prime Minister identified when it was set up in 2007. **We found the *Departmental Report* showed signs of relying on jargon as a substitute for having a clear idea where DIUS was going and how it would achieve the Prime Minister's goals. The *Departmental Report* needs to be made much more informative and helpful to the reader. A better more concise report written in plain English would aid the scrutiny of DIUS in future years. We expect to return to many of the policy issues we touched on in this Report during the remainder of this parliament.**

138. With a new Government Chief Scientific Adviser, Professor Beddington, taking up post in 2008 we found a noticeable change of gear. Professor Beddington has adopted a lower media profile than his predecessor and has embraced a more collegiate approach to the job. We can see strengths in this approach as he works behind the scenes and with the grain of government to seek to ensure that scientific advice is taken into account by civil servants and ministers in the formulation of policy. But there is a risk in this approach: the Government Chief Scientific Adviser could merge with the bureaucracy and draw back from challenging policy in other departments.

Conclusions and recommendations

Style of the Departmental Report

1. We conclude that the DIUS Departmental Report is by most standards a poor read. It is written in an impenetrable style and is peppered with jargon, unsupported assumptions and claims designed to promote DIUS. It does not meet the terms of the Treasury's guidance to present a clear picture of the department. We recommend that DIUS's 2009 departmental report be written in plain English, be shorter than the 2008 Report and use terminology appropriate to its functions. (Paragraph 14)

Use of statistics

2. We recommended that where a statistic is cited in the *Departmental Report*, the evidence to support the statistic be set out in full, if necessary in a footnote. We also recommend that in the material supporting the statistic DIUS provide information on the quality of data used, the source and the baseline and also provide a commentary on past performance. (Paragraph 20)
3. We therefore recommend that future departmental reports are reviewed before publication by either the UK Statistics Authority or by an independent person such as an academic statistician, whose opinion on the statistics is included in the report and that the appropriate metrics are specified in advance. (Paragraph 21)
4. We commend DIUS for owning up to the error in three tables in the *Departmental Report* setting out country and regional data and for supplying corrected tables. But we must put on record our concern that significant errors in the three tables setting out the country and regional analyses were not noticed before publication. (Paragraph 23)
5. We recommend that DIUS, as a matter of urgency, put in place a consistent method for ensuring that the policy it develops is soundly based on evidence. (Paragraph 24)

Costs of the machinery of government changes

6. We recommend that the NAO review the costs of the Machinery of Government changes at DIUS. (Paragraph 30)

Staff

7. We recommend that, to test their validity, the DIUS staff surveys be comprehensive, independently validated and published. (Paragraph 32)

Relationship with Department for Children, Schools and Families (DCSF)

8. We conclude that it is too early to say whether the arrangements for joint working between DIUS and DCSF are working satisfactorily. (Paragraph 37)

9. We recommend that future departmental reports contain a chapter setting out the arrangements for joint working at all levels between DIUS and DCSF and that DIUS report on the effectiveness of the arrangements. (Paragraph 37)

Departmental website

10. We accept that it is unrealistic to expect a newly established department to have a fully functional website the day after it is set up and, to give DIUS credit, we find that it has improved recently. But we conclude 18 months to reach this point is excessive and it is unacceptable that DIUS should have had until recently one of the poorest websites in Whitehall. We urge DIUS to make further improvements. (Paragraph 39)

Risks

11. We consider that the inclusion of items which are essentially the measurement of the effectiveness of policy in a list of risks undermines the point of the list. We are also concerned that the list of risks in the *Departmental Report* does not align with the risks in DIUS's annual accounts. We recommend that, when it produces next year's departmental report, DIUS reconsider the basis on which the list is produced and explain the rationale for the inclusion of items on the list, and produce a risk list that distinguishes between risks over which DIUS has direct control and responsibility from those that it does not. (Paragraph 44)
12. We recommend that DIUS, as a matter of urgency, review the systems that it has in place for managing and assessing risk and for scrutinising the systems within the department and by those bodies for which it has responsibility to implement policy efficiently and effectively. (Paragraph 46)

Capability Review

13. We found it instructive that the Capability Review with its independent and outside perspective produced a much more critical assessment of DIUS than either the *Departmental Report* or the *2007 or 2008 Autumn Performance Reports*, which were essentially DIUS produced assessments of its own record. (Paragraph 49)
14. In our view, DIUS needs to face up to and address the criticisms in the Capability Review published in December 2008. We expect to follow-up the findings in the Capability Review of DIUS in 2009. (Paragraph 50)

Managing budgets

15. We found DIUS's written statement announcing a cut in student support in 2009–10 unhelpful and incomplete. It fell below the standards we would expect from a government department. We recommend that when DIUS makes announcements affecting the financial support of students it sets out in the announcement, or in supporting material, the full consequences of the change. (Paragraph 57)

16. We conclude that DIUS is trying to have it both ways on budgetary management. On the one hand it pointed out that it was managing billions and appeared to claim that the switch of £49 million from further to higher education was an end of year “adjustment”. On the other hand, however, in 2008–09 DIUS could not find £100 million to provide continued support for students studying equivalent or lower qualifications. We shall continue to monitor budgetary adjustments made by DIUS. (Paragraph 61)
17. We recommend that, in responding to this Report, DIUS give a firm undertaking that the ring-fence on science resources will be maintained and that resources will not be switched from science. (Paragraph 61)
18. We recommend that in future departmental reports DIUS set out in full the total amounts of unallocated provision and reserves (or end year flexibility) available and claimed by DIUS. (Paragraph 61)
19. The emerging of a pattern of overspending on higher education met in part by switches from underspends on further education raises a question about the accuracy of DIUS's forecasting and, potentially, wider policy issues about the relationship between higher and further education. The accuracy of DIUS's financial forecasting is a matter we shall keep under review. (Paragraph 64)

Administration costs

20. It is unacceptable that, when we sought to scrutinise DIUS's administration costs, to be advised that this has to be done by a consolidation of DIUS's, DCSF's and BERR's costs. Our job is to scrutinise the financial management of DIUS, not DCSF or BERR. We recommend that, in responding to this Report, DIUS produce accurate, hypothecated figures for its administration costs for 2006–07 which we can scrutinise and compare with subsequent years. (Paragraph 67)

Efficiency savings

21. We recommend that in responding to this Report DIUS set out in detail with full baselines and costings—beyond those usually provided in Autumn Performance Reports—the savings promised as a result of CSR07 with progress made to date. (Paragraph 71)

Innovation in DIUS's operations

22. We conclude that, while the changes DIUS detailed in evidence as innovatory may be innovative in Whitehall, they might be better classified as the adoption of working practices used elsewhere. (Paragraph 73)
23. We conclude that the “Perfect Gift” voucher scheme launched in October 2007 needed more evaluation before it was launched. (Paragraph 76)

Regularity and propriety

24. We recommend that, in responding to this Report, the Permanent Secretary at DIUS: (a) set out how it will manage and assess financial risk within DIUS and the bodies for which DIUS has responsibility; (b) clarify how he will balance the promotion of innovation with his responsibilities as Accounting Officer to ensure propriety and regularity in expenditure; and (c) explain the role and responsibilities he has devolved to the Audit and Risk Committee in respect of the management and assessment of risk. (Paragraph 81)

Innovation targets

25. On the “vision” of achieving public and private investment in R&D [research and development] of 2.5% of GDP by 2014, we recommend that DIUS set out in response to this Report: whether this is still a target, how it is to be calculated and, in addition, what effect the current economic downturn may have on the target. We also recommend that, when DIUS has created the new innovation index, it explain the basis of the calculation of the index and provide tables restating the UK's performance since 2000 with comparisons with major industrial countries over the same period. Where a new measure is introduced, or an old measure changed, it is crucial, to ensure transparency, that both the old and new metrics continue to be published. (Paragraph 82)
26. We recommend that DIUS set out clearly and consistently the basis on which its targets are calculated and measured with the baseline data, and we re-iterate our recommendation that its collection, use and interpretation of statistics be reviewed independently. We found this exercise frustrating as DIUS shifted the basis of the calculation of the measures and revealed baseline data not included in the tables or commentaries in the *Departmental Report*. (Paragraph 87)

Further education colleges

27. We welcome the Secretary of State's commitment to further education colleges. We intend to watch developments in the sector carefully. (Paragraph 92)

Train to Gain

28. It appears that a significant part of the provision for further education and skills, and for Train to Gain in particular, in 2007–08 and 2008–09 has not been spent and has been used to meet both temporary and permanent shortfalls in other DIUS programmes. We would be concerned if a central flagship policy of the Government's skills programme—Train to Gain—were persistently raided. We recommend that in responding to this Report DIUS provide a full account of financial transactions to, and from, (including any change in the definition of training used) the budget for Train to Gain in 2007–08 and 2008–09 and that future departmental reports set out, and account for, Train to Gain separately. The accounts should also provide a commentary explaining the reasons for transfers to, and from, the budget for the programme indicating separately temporary “loans” to, and repaid

from, other DIUS programmes and permanent transfers from the Train to Gain budget to other programmes. (Paragraph 97)

Effects of the economic downturn

29. We shall continue to monitor the effects of the economic downturn. We are particularly concerned about the impact of the downturn on the provision of, and planning for, places at higher education institutions which are heavily dependant on public sector employment such as nursing, medicine, and other professional degrees, especially given indications of rapid slowdown in departmental spending growth under the 2008 Pre-Budget Report. (Paragraph 101)

Reviews of higher education

30. We conclude that DIUS is right to consider how higher education will look in ten to 15 years and we intend to play a full part in the debate on the future of higher education next year. We launched an inquiry on 30 October into students and universities, which will focus on: (a) admissions; (b) the balance between teaching and research; (c) degree classification; and (d) student support and engagement. (Paragraph 106)

Degree classification

31. We conclude that the Secretary of State was right to raise the issue of degree classification, and this is an issue we shall examine in our inquiry into students and universities in 2009. (Paragraph 107)

Wider participation

32. We share the Secretary of State's objective to wider participation in higher education and we welcome the emphasis that he has placed on the issue. We are concerned that as a result of the new targets and measures agreed from the 2007 Comprehensive Spending Review the previous emphasis on widening participation will be lost. We recommend that in responding to this Report DIUS set out in detail how it will measure and report on widening participation over the next five years. In addition, we recommend that future departmental reports set out, and report on, the three elements used to measure progress on the 2004 Comprehensive Spending Review target to raise and widen participation in higher education. (Paragraph 111)

Higher Education Funding Council for England

33. We intend to monitor the development of higher education sector, and the work of HEFCE, closely. (Paragraph 113)

Science in DIUS

34. We conclude that, while the links between the Government Chief Scientific Adviser and DIUS are useful, they are not such to lead us to revise the Science and

Technology Committee's recommendation that the Government Chief Scientific Adviser should be based in the Cabinet Office. (Paragraph 116)

Role of Government Chief Scientific Adviser

35. We are concerned that on homeopathy Professor Beddington did not take the opportunity to restate the importance of the scientific process and to state that what was important was the balance of scientific evidence, which in the case of homeopathy, does not provide strong evidence that it has an effect, beyond the placebo effect. In both the case of cannabis reclassification and homeopathic treatments we are concerned that the Government Chief Scientific Adviser has not chosen to challenge departments where no evidence was produced. (Paragraph 124)
36. Professor Beddington is the Government Chief Scientific Adviser and we are surprised that rather than champion evidence-based science within government he appears to see his role as defending government policy or, in the case of homeopathy, explaining why there is no clear government policy. This is an issue we expect to return to in our inquiry "Putting science and engineering at the heart of government policy". (Paragraph 125)

Use of metrics

37. We recommend that in responding to this Report the Government Chief Scientific Adviser explain what follow-up action has been taken by the Council for Science and Technology on the use of metrics for evaluating work done by the Government Chief Scientific Adviser. (Paragraph 126)

Government Office for Science annual report

38. We agree with the Government Chief Scientific Adviser that it would not be appropriate for the Government Office for Science annual report to be included within the DIUS *Departmental Report*. We welcome that the Government Office for Science is producing a report on its activities. We recommend that Government Office for Science report annually on science across government. (Paragraph 128)
39. We welcome the Government Chief Scientific Adviser's proposals to speed up and streamline the Science Review Programme. (Paragraph 130)

Haldane principle

40. We do not propose in this Report to reopen the debate about science budget allocations and we put on record that we do not necessarily share the Secretary of State's definition of the Haldane principle. We accept, however, that it is entirely reasonable for the Secretary of State to raise, and to suggest refinement, to the application of the Haldane principle 90 years after it was formulated. We hope that there is a debate on the application of the Haldane principle to scientific research in the 21st century and we expect that this is an issue we will return to in our inquiry "Putting science and engineering at the heart of government policy". (Paragraph 136)

Conclusion

41. We found the *Departmental Report* showed signs of relying on jargon as a substitute for having a clear idea where DIUS was going and how it would achieve the Prime Minister's goals. The *Departmental Report* needs to be made much more informative and helpful to the reader. A better more concise report written in plain English would aid the scrutiny of DIUS in future years. We expect to return to many of the policy issues we touched on in this Report during the remainder of this parliament. (Paragraph 137)
42. With a new Government Chief Scientific Adviser, Professor Beddington, taking up post in 2008 we found a noticeable change of gear. Professor Beddington has adopted a lower media profile than his predecessor and has embraced a more collegiate approach to the job. We can see strengths in this approach as he works behind the scenes and with the grain of government to seek to ensure that scientific advice is taken into account by civil servants and ministers in the formulation of policy. But there is a risk in this approach: the Government Chief Scientific Adviser could merge with the bureaucracy and draw back from challenging policy in other departments. (Paragraph 138)

Formal Minutes

Monday 15 December 2008

Members present:

Mr Phil Willis, in the Chair

Mr Tim Boswell

Ian Cawsey

Dr Ian Gibson

Dr Evan Harris

Mr Gordon Marsden

Dr Brian Iddon

Ian Stewart

Dr Desmond Turner

Rob Wilson

The Committee deliberated.

Draft Report (*DIUS's Departmental Report 2008*), proposed by the Chairman, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 138 read and agreed to.

Summary agreed to.

Resolved, That the Report be the Third Report of the Committee to the House.

Ordered, That the Chairman make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

Written evidence was ordered to be reported to the House for printing with the Report.

[Adjourned till Wednesday 14 January at 9.00am

Witnesses

Monday 13 October 2008

Page

Ian Watmore, Permanent Secretary, **Bill Dickinson**, Director General, Finance and Corporate Services, and **Zina Etheridge**, Director, Strategy and Communications, Department for Innovation, Universities and Skills

Ev 1

Wednesday 29 October 2008

Rt Hon John Denham MP, Secretary of State for Innovation, Universities and Skills and **Ian Watmore**, Permanent Secretary, Department for Innovation, Universities and Skills

Ev 17

Wednesday 5 November 2008

Professor John Beddington, Government Chief Scientific Adviser, Department for Innovation, Universities and Skills

Ev 36

Wednesday 16 January 2008

Rt Hon John Denham MP, Secretary of State for Innovation, Universities and Skills and **Ian Watmore**, Permanent Secretary, Department for Innovation, Universities and Skills

Ev 49

List of written evidence

1	Department for Innovation, Universities and Skills	Ev 67, 74, 78, 79, 81, 87, 90, 94, 98, 100, 108, 110
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List of Reports from the Committee during the current Parliament

The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

Session 2007–08

First Report	Re-skilling for recovery: After Leitch, Implementing Skills and Training Policies	HC 48-I
Second Report	The Work of the Committee 2007-08	HC 49

Session 2007–08

First Report	UK Centre for Medical Research and Innovation	HC 185 (HC 459)
Second Report	The work and operation of the Copyright Tribunal	HC 245 (HC 637)
Third Report	Withdrawal of funding for equivalent or lower level qualifications (ELQs)	HC 187-I (HC 638)
Fourth Report	Science Budget Allocations	HC 215 (HC 639)
Fifth Report	Renewable electricity-generation technologies	HC 216-I (HC 1063)
Sixth Report	Biosecurity in UK research laboratories	HC 360-I (HC 1111)
Seventh Report	Pre-legislative Scrutiny of the Draft Apprenticeships Bill	HC 1062-I
First Special Report	The Funding of Science and Discovery Centres: Government Response to the Eleventh Report from the Science and Technology Committee, Session 2006–07	HC 214
Second Special Report	The Last Report: Government Response to the Thirteenth Report from the Science and Technology Committee, Session 2006–07	HC 244
Fourth Special Report	Investigating the Oceans: Government Response to the Science and Technology Committee's Tenth Report of Session 2006–07	HC 506 [incorporating HC 469–i]