House of Commons

Business, Innovation and Skills Committee

The creation of the Department for Business, Innovation and Skills and the Departmental Annual Report 2008–09

First Report of Session 2009–10

Report, together with formal minutes, oral and written evidence

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The Business, Innovation and Skills Committee

The Business, Innovation and Skills Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Department for Business, Innovation and Skills. On 5 June 2009, the Department for Business, Enterprise and Regulatory Reform and the Department for Innovation, Universities and Skills become the Department for Business, Innovation and Skills. On 1 October 2009 the Business and Enterprise Committee was renamed the Business, Innovation and Skills Committee to reflect that change. The Committee retained the same membership as the Business and Enterprise Committee.

Current membership

Peter Luff MP (*Conservative, Mid Worcestershire*) (Chairman)
Roger Berry MP (*Labour, Kingswood*)
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Mr Michael Clapham MP (*Labour, Barnsley West and Penistone*)
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Powers

The Committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No 152. These are available on the Internet via http://www.parliament.uk/parliamentary_committees/parliamentary_committees

Publications

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at http://www.parliament.uk/parliamentary_committees/bis.cfm

Committee staff

The current staff of the Committee are: James Davies (Clerk), Ben Williams (Second Clerk), Janna Jessee (Inquiry Manager), Aruni Muthumala (Economist) Louise Whitley (Inquiry Manager), Anita Fuki (Senior Committee Assistant), Eleanor Scarnell (Committee Assistant) and Jim Hudson (Committee Support Assistant).

Contacts

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Summary

The new Department for Business, Innovation and Skills (DBIS) was formed in June 2009 by the merger of the Department for Business, Enterprise and Regulatory Reform (BERR) and the Department for Innovation, Universities and Skills (DIUS). This Report looks back on the last Departmental Report of the old Department for Business, Enterprise and Regulatory Reform and considers the progress made in moving forward the new Department.

Departmental officials told us that they were pleased with the progress that had been made in creating the new Department, although the Permanent Secretary confessed that the successful management of the high number of delivery partners in the new Department was a risk.

We consider in this report a number of specific issues. We believe that bringing together the business sector and the further and higher education sectors under one Department has the potential to offer significant benefits to both sides.

We recognise that the Department is managing the merger process well and welcome the fact that the up-front costs of the merger will be absorbed through existing budgets and savings.

Lastly, we highlight what we believe to be failings in the Department's Automotive Assistance Programme. We support the programme and are concerned that it has yet to provide anything like the assistance promised to industry when the programme was first announced.

1 Introduction

1. The new Department for Business, Innovation and Skills (DBIS) was created in June 2009 by merging the Department for Business, Enterprise and Regulatory Reform (BERR) with the Department for Innovation, Universities and Skills (DIUS). Those Departments were themselves relatively new having been established in June 2007. During the 2007 machinery of government change, BERR took over most of the functions of the former Department of Trade and Industry (DTI) and gained oversight of regulation from the Cabinet Office. DIUS took over responsibility for science and innovation from the DTI and higher education responsibilities from the former Department for Education and Skills.

2. The new Permanent Secretary of the Department for Business, Innovation and Skills, Mr Simon Fraser, gave evidence to the Committee on 13 October 2009. The session was ostensibly to discuss the Departmental Reports of the Department for Business, Enterprise and Regulatory Reform[1] and the Department for Innovation, Universities and Skills.[2] However, given the fact that those two Departments had been merged to form the new Department for Business, Innovation and Skills, the evidence session concentrated on the new Department's structure, and the challenges and risks it would face in the future.

3. The Committee asked stakeholders representing the university and business sectors for their opinion on the newly formed Department in June 2009.[3] On 7 July 2009, Lord Mandelson, the Secretary of State, also gave evidence on the structure of the Department.[4] This report draws on these evidence sessions in gaining an impression of both the rationale and effectiveness of the new Department.

4. While this Report concentrates on the structure of DBIS, our evidence session with the Permanent Secretary covered a wide number of policy areas. We have deliberately not covered all of them in this Report. But we believe that it is important to highlight one area, the Automotive Assistance Programme, which is causing us serious concern. In our Report on the automotive programme in July 2009, we expressed our disappointment that as at that date "not one single penny" had been advanced through the scheme.[5] As we explore later on in this Report, the oral evidence session with the Permanent Secretary did not completely ease our concerns.

[1] Department for Business Enterprise and Regulatory Reform, Annual Report and Accounts 2008–09, HC 447

[2] Department for Innovation Universities and Skills, Departmental Report 2009, Cm 7596

[3] HC (2008–09) HC754-i

[4] HC (2008–09) HC754-ii

[5] Business and Enterprise Committee, Ninth Report of Session 2008–09, *The Automotive Industry in the UK*, HC 550, para 31

2 The Department for Business, Innovation and Skills

The role and responsibilities of the new Department

5. The Department for Business, Innovation and Skills is responsible for a broad range of policy areas. The '*what we do*' section[6] on the Department's new website illustrates the breadth of its remit, listing the main activities as:

- Better Regulation:
- BIS International;
- Business Law;
- Business Sectors;
- Consumer Issues;
- Employment Matters;
- Enterprise and Business Support;
- Europe;
- Trade & Export Control;
- Further Education;
- Higher Education;
- Innovation;
- Regional Economic Development;
- Science;
- Shareholder Executive; and
- Skills.

Responsibility for Further and Higher Education

6. The most significant change in the new departmental structure was the inclusion of the further and higher education sectors. They find themselves incorporated into a much larger department which also happens to be responsible for other urgent and compelling priorities, namely helping businesses survive the recession.

[6] www.berr.gov.uk/whatwedo/index.html

7. Mr Fraser noted that the Department needed to action short-term priorities: “It is of course essential that we maintain the focus on business” at the same time as “aligning a longer-term set of policies which are essential for the longer-term economic success of the country”.[7] Some representatives of the higher education sector were concerned that the new Department’s need to focus on businesses would lead to their own sector being sidelined. Responding to the announcement of the creation of the new Department, the General Secretary of the University and College Union (UCU)[8] stated:

> UCU is very concerned that this merger seems to signal that further and higher education are no longer considered important enough to have a department of their own. The fact they have been lumped in with business appears to be a clear signal of how the Government views colleges and universities and their main roles in this country.[9]

8. However, Universities UK[10] said that it had been reassured by Lord Mandelson that universities would be “central to the business” of the new Department, though UUK added that it would not be “complacent” about continuing to exert pressure on the Department to ensure that higher education was not neglected.[11] Furthermore, Baroness Warwick of Undercliffe, Chief Executive of Universities UK, thought that the higher education sector had the potential to benefit from being part of a “powerful” department rather than being side-lined, as UCU feared:

> It [DBIS] will have a strong place at the Cabinet table and will therefore be very influential. We hope that is something of which it will be possible for higher education to take advantage.[12]

This view was recognised by Mr Simon Fraser:

> there is a widespread view in university circles that there is advantage in being attached to or being associated with this economic department with the influence it carries in Whitehall.[13]

9. Lord Mandelson had already highlighted the vital contribution universities make to the UK and intimated that the Department has a role to play in ensuring that their work is integrated into the economy as a whole:

> it is a department which is built around knowledge: knowledge for its own sake; knowledge as the foundation for our competitiveness, our character, our confidence as a nation. I have found not one single vice-chancellor or principal who has said to

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[7] Q 14

[8] UCU is the largest trade union and professional association for academics, lecturers, trainers, researchers and academic-related staff working in further and higher education through-out the UK.

[9] UCU website, *UCU comment on new Department for Business, Innovation and Skills*, 5 June 2009

[10] Universities UK is the representative body for the executive heads of UK universities.

[11] HC (2008–09) 754-i, QQ 3, 29

[12] HC (2008–09) 754-i, Q 9

[13] Q 15

> me, “We want in our university work to have nothing to do with the economy” or “nothing to do with business”. [14]

10. This point was taken up by Mr Fraser. He emphasised the capacity of the new Department to foster more productive links between businesses and universities. In addition to the “financial advantages” to universities of coming under BIS, there were also “advantages in terms of the dialogue between universities and businesses and economic policymakers which will be beneficial to the country”.[15] In particular, he specified that there would be “synergies” from “bringing business closer to the provision of skills”.[16] This view was endorsed by Universities UK, which stated that “One of the strengths of this Department is that it brings the business relationship to the fore which is really important for us”.[17] The TUC, when it came before the Committee on 7 July 2009, argued that there was “great potential for the new Department … to bring skills and learning more generally into that kind of business focus which is very important for the economy.”[18]

11. Mr Fraser also argued that the structure of the Department could enable businesses to more successfully exploit scientific innovation. The new Department, he commented, would create “synergies” not only by aligning skills with business needs but also by “creating greater opportunities for the commercialisation of science through the Innovation Programme”.[19] Mr Lambert, Director-General of the CBI, highlighted the benefits of linking science, innovation and business needs:

> The big potential gain is having a powerful economics ministry with a big science budget, a responsibility for innovation and the capacity to manage the university system in a way that represents both its public good responsibilities and engagement with the economy. Linking all of that together with a business focus is potentially a big gain and we must all hope that that happens.[20]

These benefits are not without risks. Mr Lambert warned that if “the glue does not hold … maybe the priorities would be skewed by current economic pressures and people would regard it as a temporary arrangement”.[21] That said, Mr Fraser was confident that the Department would be a “better delivery vehicle” than its predecessor departments. “By bringing the two together, there is more traction, if you like, behind the agenda.” Looking ahead, he argued that the Department should remain in its new form not just for the sake of “stability” but more importantly because “it has logic in its structure”.[22]

12. **We agree with the Permanent Secretary that the Department has ‘logic in its structure’, with significant potential benefits to the further and higher education**

[14] HC (2008–09) 754-ii, Q 107

[15] Q 17

[16] Q 14

[17] HC (2008–09) 754-i, Q 13

[18] HC (2008–09) 754-i, Q 32

[19] Q 14

[20] HC (2008–09) 754, Q 86

[21] HC (2008–09) 754, Q 86

[22] Q 6

sector. Given the economic climate, the main challenge for the Department will be to strike the right balance between the short-term immediate priorities of helping businesses through the recession and the longer term priorities of ensuring that the higher and further education sectors are able both to flourish and to equip the future workforce with the skills that businesses need.

The Merger Process

13. There has been a significant level of concern that the Department's remit and structure had already been the subject of too much restructuring. The further education and university sectors had, in the space of two years, moved from being managed within the former Department for Education and Skills—where they were primarily linked into school education—to a new, much smaller, focused Department, DIUS, where they were associated with innovation.

14. The Innovation, Universities and Skills Committee heard that the creation of DIUS in June 2007 had already had a negative impact on policy momentum. Richard Lambert, Director-General of the CBI told the Committee that "not much happened" in DIUS's first year.[23] In December 2008, the Capability Review undertaken by the Cabinet Office on DIUS highlighted inadequacies in its management processes:

> [DIUS] needs to do more to prioritise its resources and to manage performance and risk across its new agenda. DIUS needs to assess whether its inherited delivery relationships are the right ones.[24]

15. The National Audit Office argued that one of the new Department's main challenges was to ensure that the changes initiated by DIUS in the further education and university sectors remained on track:

> [DIUS] has been managing continuing changes within itself, its bodies and the sectors in which it operates [...] Since BIS [Business, Innovation and Skills] has taken over the former responsibilities of DIUS, it is important the benefits of the change programme continue to be realised where this is appropriate and feasible.[25]

16. When asked to comment on the impact of departmental change on the smooth running of government, the Department assured us that the merger had not caused any major or lasting disruption to policy implementation. Ms Hilary Douglas, Director General for Operations and Change for BIS, commented:

> Issues that were raised for DIUS in their capability review were around the setting of strategy, strengthening the leadership of change, especially at the level just below the board, and making sure that the board was visible in driving policy and engaging with their delivery partners. Those were all issues that were very important to BERR and remain very important to BIS, so bringing together the change programme for

[23] HC (2008–09) 754-i, Q 54

[24] DIUS Capability Review: Supporting the Economy, Investing in Future Prosperity, December 2008, p 11

[25] www.nao.org.uk/publications/0910/dius_briefing.aspx, para 2.21, p22

> BIS has not created huge dissonances and differences of opinion. We really have been able to bring together the experiences of both.[26]

17. Mr Fraser also noted that "DIUS was doing some extremely good work on confident policymaking, new ways of making policy, evidence based policy" and that the Department had "sought to take the best of both" its predecessor departments' experiences.[27]

18. Commenting on the merger process, Mr Fraser told the Committee that the Department had moved "as fast as it could" not only to ensure that disruption was kept to a minimum, but also because of the pressing need for the Department's agenda to be delivered:

> We established a new management system; we have established a new governance system. We are still in the process of working through some aspects of that; for example, our risk management procedures and so forth, which we are just refining now. We have appointed our non-executive board members as well. We have been able to move pretty rapidly over the summer to keep the show on the road.[28]

19. Ms Douglas gave us an insight into the costs incurred to create the merged department: the upfront-costs of the merger logged so far were £160,000. This amount, she continued, would be absorbed in the Department's current budget and would later be offset by recurrent savings from the merger arising from the removal of duplication.[29] Mr Fraser explained that while signage was an immediate cost, other costs were not so high, and that the Department would be able to realise some economies of scale. In terms of specific savings in staff costs he highlighted the fact that the new Department had made reductions of "one permanent secretary, one director general, with two further director general slots to come, plus some director level jobs, so at the top we have achieved quite a lot of integration and we have to work that through the system."[30]

20. Ms Douglas described how staff were being briefed about departmental changes:

> The Secretary of State had an all-staff meeting with video conferencing to all the different sites; we have had a conference of all the senior leadership; and we are now having events with all the middle managers across the sites.[31]

At the time the Department gave evidence to the Committee in October it was in the process of conducting its main staff survey. The Department had already conducted a mini staff survey of about 100 staff "just to get a feel on how they were reacting" and the responses had been "pretty positive".[32] Ms Douglas added that the "great majority of the staff were recognising what the objectives and the mission of the department were and

[26] Q 19

[27] Q 19

[28] Q 10

[29] Qq12–13

[30] Q11

[31] Q 22

[32] Q 22

were saying that they thought change was being managed well."[33] Despite the Department's confidence in its management of the change process, Mr Fraser was fully aware that "stability" remained one of the main risks facing the Department.

21. **We note the Permanent Secretary's assurances that the new Department has been created with a minimum of disruption. However, any departmental restructuring has an impact, in the short term, on policy implementation, as resources are diverted to manage that change. The Permanent Secretary acknowledged that "stability" was one of the main risks facing the Department. Given the degree of departmental change experienced in the Department and its predecessor Departments in recent years, we believe that a sustained period of stability in the Department's structure would be in the interests of all policy areas in its remit.**

22. **Furthermore, we are encouraged by the fact that the initial costs of the merger will be met by existing budgets.**

Delivery Agencies

23. The merger of BERR and DIUS resulted in the new Department being responsible for 74 delivery partners. BERR had 40 delivery partners—which included two Executive Agencies, eight Regional Development Agencies and nine Executive Non-departmental Public Bodies with bodies as diverse as Consumer Focus and Capital for Enterprise Ltd.[34] DIUS had 34 delivery partners including one Executive Agency (the National Measurement Office) and 22 Executive NDPBs which included the Higher Education Funding Council for England (HEFCE), the Learning and Skills Council (LSC) and the seven Research Councils.[35]

24. Mr Fraser described the nature of the delivery agencies to the Committee :

> They are not all delivery partners; some of them are policymakers as well. It is important to say that they are rather heterogeneous and different, so we have to look at them individually and make sure that we are establishing the right relationship with each organisation. They all have clear tasks and mandates and they have agreements with the Department which delineate their responsibilities. I do not think it is impossible to have this set of organisations operating effectively, but clearly there is a challenge, as you pointed out, in terms of coordination and financial control and management control which we have to address.[36]

25. Mr Fraser acknowledged that the number of delivery agencies was one of the risks which kept him awake at night.[37] That said, he argued that it was "too early" for him to make a judgement on whether rationalisation of delivery partners ought to be considered, and concluded that "I am focusing on making what we have work as effectively as we

[33] Q 22

[34] http://www.nao.org.uk/publications/0910/berr_briefing.aspx, p 29–30

[35] www.nao.org.uk/publications/0910/dius_briefing.aspx, p 37–38

[36] Q 35

[37] Q 4

can".[38] Mr Fraser indicated that the delivery partners were kept informed of overall departmental strategy with regard to them. In addition to this, the Department planned to convene a second meeting of all the heads of the agencies, which would be attended by the Secretary of State. He also explained that the Department had undertaken a review which examined its relationships with all its delivery partners. The review had generated a number of recommendations which were about to be presented to the Management Board of the Department.[39]

26. **Managing the Department's large number of delivery partners represents a significant risk. We welcome the Department's review of its relationships with its delivery partners. We look forward to receiving early sight of the recommendations arising out of that review and details of the Department's plans for their implementation.**

PSAs and DSOs

27. BERR's Annual Report and Accounts 2008–09 showed the latest assessment against its three PSA targets[40]:

PSA 1 Raise the productivity of the UK economy (not yet assessed)

PSA 6 Deliver the conditions for business success in the UK (some progress)

PSA 7 Improve the economic performance of all English regions and reduce the gap in economic growth rates between regions (some progress)

The Department also had five Departmental Strategic Objectives covering the Department's key policy areas. They were to:

- Promote the creation and growth of businesses and a strong enterprise economy across all regions (strong progress);
- Ensure that all Government departments and agencies deliver better regulation for the private, public and third sectors (strong progress);
- Deliver free and fair markets, with greater competition for businesses, consumers and employees (strong progress);
- Ensure the reliable supply and efficient use of clean, safe and competitively priced energy (strong progress) and
- Provide the professional support, capability and infrastructure to enable BERR's objectives and programmes to be successfully delivered (strong progress).[41]

28. DIUS's Departmental Report 2009 showed its progress against the two PSAs it led on:[42]

[38] Q 37

[39] Q 35

[40] Department for Business Enterprise and Regulatory Reform, Annual Report and Accounts 2008–09, HC 447, p 20

[41] Department for Business Enterprise and Regulatory Reform, Annual Report and Accounts 2008–09, HC 447, p 20

PSA 2 Improve the skills of the population on the way to ensuring a world-class skills base by 2020 (not yet assessed).

PSA 4 Promote world-class science and innovation in the UK (some progress).

That Department also had six DSOs (five of which were not assessed), which were:

- To improve the skills of the population throughout their working lives to create a workforce capable of sustaining economic competitiveness, and enable individuals to thrive in the knowledge economy (not yet assessed);
- To build social and community cohesion through improved social justice, participation and economic opportunity by raising aspirations and broadening participation, progression and achievement in learning and skills (not yet assessed);
- To pursue global excellence, research and knowledge, promote the benefits of science and society, and deliver science, technology, engineering and mathematics skills in line with employer demand (not yet assessed);
- To accelerate the commercial exploitation of creativity and knowledge, through innovation and research, to create wealth, grow the economy, guild successful businesses and improve quality of life (strong progress);
- To strengthen the capacity, quality and reputation of the further and higher education systems and institutions to support national economic and social needs (not yet assessed);
- To encourage better use of science in government, foster public service innovation, and support other government objectives which depend on DIUS expertise and remit (not yet assessed).[43]

29. Incorporating both Departments' PSAs and DSOs has resulted in the Department for Business, Innovation and Skills leading on five PSAs alongside having eleven DSOs. Mr Fraser told us the Department was not in a position to adjust the PSAs because they were cross-governmental, but he agreed that eleven DSOs were too many for a Department to manage. He explained that his Department was looking to streamline the process and intended to include new DSOs in its Autumn Performance Report.[44]

30. **We look forward to considering the Department's new DSOs and indicators when they are published in the Department's Autumn Performance Report.**

Future Departmental Reports and Resource Accounts

31. The DTI initially combined its Departmental Report with its Resource Accounts in its last year of existence in 2006–07 and BERR continued that practice in 2007–08 and 2008–09. BERR's Annual Report and Accounts for 2008–09 therefore has two sets of financial figures, the 'expenditure tables' and the resource accounts. The Treasury has historically

[42] Department for Innovation Universities and Skills, Departmental Report 2009, Cm 7596, pp 28 and 38

[43] Department for Innovation Universities and Skills, Departmental Report 2009, Cm 7596, pp 36, 42, 44, 46

[44] Qq 136 and 137

requested Departments to present data on budgetary expenditure in their Departmental Reports. This data—the 'expenditure tables'—is presented in Annex 8 of the Departmental Report. It shows historic financial information from 2003–04 and also projections for the remaining years in the Spending Review. The resource accounts, which are similar to a set of company accounts and present financial information for 2008–09 are included in Chapter 5. The resource accounts have been audited by the NAO.

32. BERR's inclusion of Resource Accounts in the Departmental Report is in line with the Treasury's agenda for all Departments to publish their Departmental Reports and resource accounts together by June 2010. In its 2009 Departmental Report, DIUS presented its Resource Accounts separately from its Departmental Report. Mr Fraser told us that the Department intended next year's Departmental Report would also incorporate the Resource Accounts. That said, he acknowledged that consolidation of both BERR's and DIUS's financial accounts represented a significant challenge.[45]

33. **We commend the (former BERR) Department for being one of the first to produce its resource accounts together with its Departmental Report in 2008–09 (BERR's Annual Report and Accounts 2008–09). We look forward to the new Department producing a combined Departmental Report with resource accounts for 2009–10.**

[45] Alignment (Clear Line of Sight) Project, Cm 7567, p 5

3 The Automotive Assistance Programme

34. On 27 January 2009 the Secretary of State announced a £2.3 billion package of loan guarantees to Britain's automotive manufacturers and large suppliers, primarily to support investment in low carbon plant and research and development. The scheme is designed primarily to use government guarantees to unlock up to £1.3 billion of loans from the European Investment Bank (EIB) and a further £1 billion in loans from other lenders. In exceptional circumstances, government loans may be provided under the AAP.[46]

35. We considered the AAP in our Report on the Automotive Industry in the UK which was published in July 2009. At that time, no funds had been disbursed through the scheme and we concluded that:

> "we are profoundly disappointed that to date not one single penny has been advanced through the scheme. We hope that this will change rapidly".[47]

We also concluded that there was too great a gap between eligibility for the Enterprise Finance Guarantee Scheme and eligibility for the Automotive Assistance Programme and recommended that "the loan guarantee threshold for the Automotive Assistance Programme should be lowered urgently to £1 million".[48]

36. The threshold for the Programme has now been lowered to £1 million, in line with our recommendation. **We welcome the fact that the Department has now lowered the limit of the Automotive Assistance Scheme from £5 million to £1 million, in line with the Committee's recommendation.**

37. However, little progress has been made in releasing funds through this scheme. The Government has yet to provide a single loan guarantee, although Mr Fraser confirmed that an offer of a loan of £10 million had been made to Tata Motors European (TMETC) for the production of electric vehicles.[49] However, recent press reports indicate that Tata have since rejected that loan.[50] Another offer of a loan guarantee was made to Jaguar Land Rover (JLR) but the company had decided not to accept the Government's offer.[51]

38. In July we were told that the Government was in negotiations with 18 companies. This has now risen to 20:

> We have engaged with about 20 companies in negotiation on this scheme and there is a pipeline which could actually amount, if they were all to come off, to a total of projects guaranteed by the scheme of £2 billion. So there is no shortage of negotiation. Obviously we cannot fund all those, but they will not all come off, so

[46] Business and Enterprise Committee, Ninth Report of Session 2008–09, *The Automotive Industry in the UK*, HC 550, Ev 64

[47] HC (2008–09) 550, para 31

[48] HC (2008–09) 550, para 20

[49] Q 80

[50] www.business.timesonline.co.uk/tol/business/industry_sectors/engineering/article6936238.ece

[51] Q 87

> although we have not got the money out of the door at the moment, there is activity around the scheme.[52]

39. When asked why the process was taking so long, Mr Fraser argued that the Department was not “dragging its heels”, it was just that there were complicated issues to address before negotiations could be concluded:

> This is not just giving people money on a short-term basis. The conditions of the funding are linked to the future viability of companies and particularly related to their investments in low carbon-related technologies.[53]

Furthermore, he added that:

> These are long negotiations and of course we do not want to just put taxpayers' money behind any old sort of agreement or scheme. It has to be very carefully thought through but there is a lot of negotiation in the pipework with a number of different companies. [54]

Despite the lack of progress, Mr Fraser remained of the opinion that the Automotive Assistance Programme was not failing.[55]

40. **While we are aware of the apparent success of the scrappage scheme, and while we appreciate the fact that negotiations to agree loans and loan guarantees with car companies can be complex and time-consuming, the absence of a single loan or loan guarantee from a scheme which was heralded as “a further £2.3 billion package of loan guarantees” is disappointing. The Government needs to expedite its negotiations, and prove to us and the automotive industry that the Automotive Assistance Programme can provide tangible benefits to the industry.**

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[52] Q 87

[53] Q 93

[54] Q 99

[55] Q 101

Conclusions and recommendations

1. We agree with the Permanent Secretary that the Department has 'logic in its structure', with significant potential benefits to the further and higher education sector. Given the economic climate, the main challenge for the Department will be to strike the right balance between the short-term immediate priorities of helping businesses through the recession and the longer term priorities of ensuring that the higher and further education sectors are able both to flourish and to equip the future workforce with the skills that businesses need. (Paragraph 12)

2. We note the Permanent Secretary's assurances that the new Department has been created with a minimum of disruption. However, any departmental restructuring has an impact, in the short term, on policy implementation, as resources are diverted to manage that change. The Permanent Secretary acknowledged that "stability" was one of the main risks facing the Department. Given the degree of departmental change experienced in the Department and its predecessor Departments in recent years, we believe that a sustained period of stability in the Department's structure would be in the interests of all policy areas in its remit. (Paragraph 21)

3. Furthermore, we are encouraged by the fact that the initial costs of the merger will be met by existing budgets. (Paragraph 22)

4. Managing the Department's large number of delivery partners represents a significant risk. We welcome the Department's review of its relationships with its delivery partners. We look forward to receiving early sight of the recommendations arising out of that review and details of the Department's plans for their implementation. (Paragraph 26)

5. We look forward to considering the Department's new DSOs and indicators when they are published in the Department's Autumn Performance Report. (Paragraph 30)

6. We commend the (former BERR) Department for being one of the first to produce its resource accounts together with its Departmental Report in 2008–09 (BERR's Annual Report and Accounts 2008–09). We look forward to the new Department producing a combined Departmental Report with resource accounts for 2009–10. (Paragraph 33)

7. We welcome the fact that the Department has now lowered the limit of the Automotive Assistance Scheme from £5 million to £1 million, in line with the Committee's recommendation. (Paragraph 36)

8. While we are aware of the apparent success of the scrappage scheme, and while we appreciate the fact that negotiations to agree loans and loan guarantees with car companies can be complex and time-consuming, the absence of a single loan or loan guarantee from a scheme which was heralded as "a further £2.3 billion package of loan guarantees" is disappointing. The Government needs to expedite its negotiations, and prove to us and the automotive industry that the Automotive Assistance Programme can provide tangible benefits to the industry. (Paragraph 40)

Formal Minutes

Tuesday 8 December 2009

Members present:

Peter Luff, in the Chair

Mr Michael Clapham	Lembit Öpik
Mr Lindsay Hoyle	Ian Stewart
Miss Julie Kirkbride	Mr Anthony Wright

Draft Report (The creation of the Department for Business, Innovation and Skills and the Departmental Annual Report 2008–09), proposed by the Chairman, brought up and read.

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

Paragraphs 1 to 40 read and agreed to.

Summary agreed to.

Resolved, That the Report be the First 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.

[Adjourned till Tuesday 15 December at 10.00 am

Witnesses

List of written evidence

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.

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Seventh Report	Keeping the door wide open: Turkey and EU accession	HC 367 (HC 1070)

* First Joint Report with Culture, Media and Sport Committee

** First Joint Report of Committee's on Arms Export Controls

Eighth Report [**]	Scrutiny of Arms Export Controls (2008): UK Strategic Export Controls Annual Report 2006, Quarterly Reports for 2007, licensing policy and review of export control legislation	HC 254
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** First Joint Report of Committee's on Arms Export Controls

Oral evidence

Taken before the Business, Innovation & Skills Committee

on Tuesday 13 October 2009

Members present

Mr Peter Luff, in the Chair

Roger Berry
Mr Brian Binley
Mr Michael Clapham
Mr Mark Oaten
Lembit Öpik

Witnesses: **Mr Simon Fraser**, Permanent Secretary, **Mr Howard Orme**, Director General Finance, **Ms Hilary Douglas**, Director General for Operations and Change and **Mr John Alty**, Director General, Fair Markets, Department for Business, Innovation & Skills, gave evidence.

Q1 Chairman: Welcome to the first session—the first ever session—of the Business, Innovation & Skills Committee. It is our fourth name in four years, so we are a bit punch drunk. Mr Fraser, we are very pleased to see you. It is a very appropriate way to start this reincarnation experience, this whole connection. Perhaps I could begin, as I always begin, by asking you to introduce yourself and your colleagues.
Mr Fraser: Thank you very much, Chairman. I am Simon Fraser, the Permanent Secretary of the Department of Business, Innovation & Skills, formerly, briefly, the Permanent Secretary of BERR, for one month before the merger took place. On my right is Howard Orme, who is the Director General of Finance in BIS. He, like me, is a bit of a neophyte. He joined the Department in July. I therefore thought it would be appropriate to bring along two old hands from the BERR days: Hilary Douglas, who was Chief Operating Officer of BERR and is now Director General for Operations and Change in BIS, and John Alty, who is Director General for Fair Markets as was in BERR and still is in BIS.

Q2 Chairman: Of course we know you yourself because the Committee has met you on a number of occasions in Brussels in one of your previous incarnations.
Mr Fraser: Yes.

Q3 Chairman: Perhaps I can begin by asking a very broad and general question, which invites a long answer. You have a history of dealing with some of the issues that the Department deals with. You understand and your experience is relevant to it. What is your view about the opportunities created by the merger of this new Department, which is not without controversy, and the risks in the merger? Where do you stand?
Mr Fraser: That is a good question to open with. My own view on this is that this merger creates a lot of opportunities for the Department, for the Government and for the country, because it is giving us a chance to align a broad range of policies which were previously in two different departments behind a very clear single objective, which is to pursue policies which create economic opportunity, a dynamic and competitive economy for the country, as well as creating opportunity for individuals within our society. The fact that we are able to align this broad range of policies together through one department helps us to get more traction on that agenda. Essentially, we have two objectives, if you will. The short-term objective has been very much focused on helping people get through the crisis, through the Real Help schemes and so forth, but the longer-term objective, the strategic objective, is to pursue an agenda which we set out in the New Industry, New Jobs agenda before the two departments were merged, which gives us a vision of how we think the economy should develop in the future. They are the opportunities. There are of course risks which I am happy to—

Q4 Chairman: Which one keeps you awake at night?
Mr Fraser: There are two or three risks. One, stability, you alluded to yourself in your opening remarks, and I do think that it is important for all of us that we should seek to have as much stability as we can, to allow us to get on with delivering. The second thing I would say is that I do think it is very important for us to focus on delivery and to try to achieve results. The other risk that I would highlight—and perhaps we will come back to that—is that this is now a very big central department in London but also it has a very important number of associated departmental bodies in our delivery and policy network, a total of 71 partner organisations. Of course within that there are potential risks in terms of—

Q5 Chairman: We want to ask you about those particular risks later. You will understand—and I want to say this in the most neutral way I can from the chair—the controversy surrounding the creation of the Department. The original impression was that it might be a vehicle for one man's particular approach to government—if I may put it like that—rather than having an underlying strategic rationale. I have to say my discussions over the summer with the interest groups that now form the Department leave me on the whole to believe that they are persuaded by the strategic rationale for the Department. How does the Department itself feel

about this new creation? Does it sense a common mission, a shared purpose, or is it two competing fiefdoms that have been brought reluctantly together?
Mr Fraser: This is one of the most impressive things in my experience since we started on 5 June. There is a real sense of energy and commitment in this Department, on both sides, if you like, of the two former departments that came together. There is a widespread belief amongst the staff that we are better able to have impact together, because we have a coherent agenda, we have organisational weight in Whitehall—which neither of the two previous departments had to the same degree—and of course we have considerable financial means at our disposal in order to pursue the agenda. There is a lot of commitment there. Of course some of our staff have been involved in a number of machinery of government changes in recent years—I think this is our third in two years—and therefore we have put a huge emphasis on bringing the staff with us, establishing a clear mission, a set of priorities that everybody can associate with, and promulgating the values of the organisation, and the staff have responded extremely well. I would say it is a very positive move.

Q6 Chairman: If Ken Clarke were to be—and I do not ask my Labour colleagues to endorse the idea that he will be, but if he were to be—the next secretary of state for the Department, what advice would you give him on the structure of that? Would you say, "This is working very well, you should keep it," or would you say, "There are changes I would make in an ideal world"?
Mr Fraser: Of course it is the prerogative of any government coming in to make its own decisions, but my advice would be that there is a logic in this structure, that there is a great advantage in stability (for the reasons we have discussed), that we have a clear agenda and what we are trying to deliver is good for the country. The basic tenor of my advice would be that this is a good construct that we should try to make work.

Q7 Chairman: For all kinds of reasons, to reiterate the point, you favour stability. You personally feel there is much merit in stability.
Mr Fraser: I believe so, but the reason I favour stability is because I think that this is an organisation that has the capacity to deliver.

Q8 Chairman: I have heard it said that this is very much like the old Department for Economic Affairs, many years ago, in terms of the breadth of its remit and that it is now, potentially, a real countervailing power for the Treasury in government for the first time. You are the second most powerful permanent secretary in Whitehall now. Do you recognise that description?
Mr Fraser: I do not think I recognise that description, although I do not think in those terms, Chairman.

Q9 Chairman: That is a first for a permanent secretary!
Mr Fraser: Well, you know: new generation! The relationship between this Department and the Treasury is extremely good, and both at ministerial and official level we have established and we are continuing to deepen a very constructive relationship. I would add to that that we realise we cannot achieve our objectives except through co-operation with other departments. There are a number of departments in Whitehall with whom we have to work if we are going to achieve success, so we are at the moment in the process of setting up a series of mini board meetings with some of our key partners in Whitehall in order to try to integrate successful policies with them.

Q10 Chairman: Two last detailed questions from me before I hand on. First of all, has the new management structure of the Department been finalised? Is that now settled?
Mr Fraser: Yes. We took the decision in June that we would move as fast as we could on the merger because we are conscious that time is short and there is an urgent economic agenda to be delivered. We brought the two departments together with the principle of minimum disruption. We established a new management system; we have established a new governance system. We are still in the process of working through some aspects of that; for example, our risk management procedures and so forth, which we are just refining now. We have appointed our non-executive board members as well. We have been able to move pretty rapidly over the summer to keep the show on the road or to put the show on the road as rapidly as we could.

Q11 Chairman: Finally, an argument that you might advance to a new secretary of state of either political party for keeping the structure. What was the cost of this merger? DIUS had a remarkably short lifespan by any government department standards, so it has been de-merged and re-merged in a very short space of time. What cost does one place on the merger of the two departments to create BIS?
Mr Fraser: I can invite Hilary and Howard to supplement my answer on this, but the key message is that the immediate costs of the merger—and of course there were some in terms of changing our signage and so forth—were fairly limited because the staff were already present in Victoria Street and Kingsgate House. These days you can bring teams together fairly rapidly. We had compatible information technology, for example, so those costs were not very high. In fact we are absorbing those costs in our budget. Of course, as we go ahead I think we will be able to realise some economies and some savings, because we are merging, for example, two corporate centres in the new Department, and there will be opportunities in that over time. We have already, of course, saved one secretary of state, one permanent secretary, one director general, with two further director general slots to come, plus some

director level jobs, so at the top we have achieved quite a lot of integration and we have to work that through the system.
Ms Douglas: The upfront costs that we have logged are £160,000.

Q12 Chairman: Annual recurring savings if the permanent secretary—
Ms Douglas: No, it is £160,000 that we have spent one-off.

Q13 Chairman: Yes, offset by recurring savings.
Ms Douglas: Offset by all the savings from duplication being removed, and the £160,000 has been absorbed within current budgets.
Chairman: Thank you very much. I turn to Roger Berry.

Q14 Roger Berry: The Chairman started by saying that we are a bit punch drunk with name changes for our committee, but your colleagues in the Department must be pretty punch drunk because they are directly affected. To play devil's advocate for a minute, apart from the nice idea of a bigger department with more push and influence, BERR had a pretty specific short-term commitment, particularly in the present situation, to focus on business and providing support and advice for business, whereas with the university sector it is very much more long-term, the development of skills and so on and so forth. How is the Department going to do these two rather different things together and better?
Mr Fraser: It is of course essential that we maintain the focus on business. One of the priorities that we have established for ourselves is exactly that. We do of course maintain the policies that were in the former BERR in terms of our support for business and creating a better environment for business; for example, our Better Regulation agenda, the schemes to which I have alluded already for immediate help, the relationship with the regional development agencies and so forth, and UKTI of course. Those remain within the Department, so the business focus remains strong. Alongside that we are aligning a longer-term set of policies which are essential for the longer-term economic success of the country, and so we are getting synergies, if you like, in bringing business closer to the provision of skills, in aligning higher education with what are perceived by us and by business to be the longer-term needs of the economy, by creating greater opportunities for the commercialisation of science through the Innovation Programme. There are real synergies between the two departments. It is arguable that both the previous departments had a clear focus, but they were both fairly small departments. By bringing the two together, there is more traction, if you like, behind the agenda, so it is a better delivery vehicle.

Q15 Roger Berry: I can see there is an advantage in focusing on both short-term and long-term issues. That is one thing that clearly is at the top of your priorities. How do universities feel about this, in your view? Some, I know, feel that they are a bit neglected in a big department that deals with other short-term crises.
Mr Fraser: We have not yet had an opportunity to do an exhaustive stakeholder survey because we have only been going for a few months—although we do in fact have one now underway—so all we have is a combination of Pulse Surveys and anecdotal evidence, but I think you are right that when the Department was formed there was a sense in some university circles that this may pose a risk to the value the Government place on learning for learning's sake, pure research, and there was a risk that it would be seen as instrumentalisation of the universities' agenda for economic purposes. I think we have managed to allay those concerns—we were very aware of them when we started—and I also believe that there is a widespread view in university circles that there is advantage in being attached to or being associated with this economic department with the influence it carries in Whitehall, both in terms of creating focus on what universities are achieving—and of course they are major providers of research in the economy—but also in terms of promoting their links with business, with the potential that brings for financial support and engagement. I recognise that there are arguments on both sides.

Q16 Roger Berry: Surely it has happened before that government was promoting business awareness in universities—and many are doing very well in that area. What new things do universities get out of this deal? What are they going to get now that they did not have before, as effectively a key player in a separate department?
Mr Fraser: They were, of course, a key player in former DIUS. They get out of it, as I have said, being part of a department where they are perceived and actually play a very important role at the centre of our vision of the future of the economy. They are being integrated into this and there are benefits for them in terms of the visibility that brings and the access to resources, for example, through the commercialisation of research. For example, the Innovation Fund which has been established under BIS now, which is seeking to promote venture capital behind certain areas of research—I would expect universities to benefit from that. The Strategic Investment Fund that we have introduced, to which we have now allocated forward another £750 million—there will be benefits for universities in the research spin-offs from that.

Q17 Roger Berry: You think there will be significant financial advantages.
Mr Fraser: I think there will be financial advantages but, also, advantages in terms of the dialogue between universities and businesses and economic policymakers which will be beneficial to the country. Of course another advantage that universities have already gained is the increase in student numbers this year—a decision made by the Department. Of

course that decision may have been made by a different department, but it is a fact that it was made by BIS.
Roger Berry: Touché.

Q18 Mr Clapham: I heard what you said to the Chairman about opportunities and the opportunities being there, but when we look at what DIUS was doing—for example, the change programme being implemented—given the situation since the merger and the continuity that one would expect, how has that existing change programme been affected?
Mr Fraser: That is a very good question, and one which I wanted to allude to. It is important to underline that this was a merger between two departments and that the two departments had slightly different cultures. DIUS, of course, in a sense was a start-up department and therefore had a lot of innovation in the way it operated.

Q19 Mr Clapham: With a large budget.
Mr Fraser: With a very large budget, mainly deployed through delivery partners, so there were slightly different models of department. BERR, although it had a lot of policy had a relatively small budget. There is a synergy in the shapes of the two departments, if you like. The point I wanted to make is that we have been very conscious to take the best of the DIUS experience into the new Department. For example, DIUS was doing some extremely good work on confident policymaking, new ways of making policy, evidence based policy, and we have brought that into the new Department and we are working it through, so we have sought to take the best of both and we are in the process of bringing it together.
Ms Douglas: Their change programme was focusing on the sorts of issues that were also important to the change programme for BERR, and that has been brought together in the change programme for BIS. The issues that were raised for DIUS in their capability review were around the setting of strategy, strengthening the leadership of change, especially at the level just below the board, and making sure that the board was visible in driving policy and engaging with their delivery partners. Those were all issues that were very important to BERR and remain very important to BIS, so bringing together the change programme for BIS has not created huge dissonances and differences of opinion. We really have been able to bring together the experiences of both.

Q20 Mr Clapham: Given that we have this much larger department and given that the focus of DIUS was to provide confident leadership in business change, do you feel that you can maintain and sustain the same kind of drive right across your Department to reinforce what is required for industrial change?
Mr Fraser: I think we can build on what DIUS has done and take it further. Both the former departments, as Hilary has said, in their capability reviews had certain areas for development which were identified, and we have been focusing on those. Amongst our priorities are that we have a clear strategy which the Department is organised around—and we do, because it is through the Building Britain's Future, New Industry New Jobs agenda—and that we have very clear financial control. That is an important area for us because we have a very considerable budget. Implicit in that is that we have effective relationships with these delivery partners around the country. We are working on that. In fact our management board next week will be taking a report on how we can ensure that we are doing that. And that we focus on our staff and get our staff to understand the synergies that we were talking about earlier on, and how, if you are working on the skills agenda, you can benefit by talking to and working with people who, for example, are working in the fair markets area or the business development area, so that we can bring them together. That is our task. It is work in progress but I am encouraged by the start we have made on it.

Q21 Mr Clapham: The Department obviously has new objectives and that means new pressures on the staff. Is staff morale standing up?
Mr Fraser: We will know shortly. We have just started the Whitehall-wide staff survey, which all departments are doing together. It will close in 16 working days time—as I saw on my computer this morning—it will then be assessed across government, and we will get returns against a lot of questions: Do you understand the purpose of the Department? Do you understand how your job fits in?

Q22 Mr Clapham: So you have already started to measure.
Mr Fraser: This is all being done. We will have results in a couple of months.
Ms Douglas: We should have the results before Christmas of the whole staff survey. In the meantime we have done a mini-survey of a small sample of 100 staff just to get a feel for how they might be reacting, and the responses have been pretty positive. We have been pleased with them. Of course we cannot be sure that that is going to be reflected with staff as a whole, but the great majority of the staff were recognising what the objectives and the mission of the Department were and were saying that they thought change was being managed well. We have had a series of events with staff since the new Department was created: the Secretary of State had an all-staff meeting with video conferencing to all the different sites; we have had a conference of all the senior leadership; and we are now having events with all the middle managers across the sites. We are picking up a lot of feedback there which suggests that people are feeling pretty positive. Of course all staff have issues that they want to raise, but they would have those issues, frankly, if they were still in the two previous departments. The overwhelming sense is that they do feel positive about the opportunities that are coming out and they are wanting to learn about each other's work.

Q23 Mr Clapham: When that exercise is complete will the Committee be provided with the outcome of that assessment?
Mr Fraser: It is a centrally organised by the Cabinet Office, so I am not quite sure how they propose to do it, but I am certainly very happy to share the outcomes of it.

Q24 Mr Clapham: I think it would be advisable, given the size of the Department. One of the fears and risks, of course, is what would happen in the Department if the person at the helm was to be moved on.
Mr Fraser: You raise that as an issue. I cannot speculate on whether or not that may happen. Hilary made a very important point that this is not only a London-based department. That is really important in terms of staff relations. We have significant numbers of staff in Sheffield and in Cardiff and we are focusing on that. There are two issues which are inevitably of concern to staff at the moment. One is accommodation. We are in the process of bringing our staff into the one building in Victoria Street. We have just opened a new floor for all our Science, Universities and Skills group this week, which is great news. The other thing of course is pay and conditions. When you merge two departments, there are always issues around conditions of service. We have put a huge emphasis on trying to get pay remits agreed and then to bring these things together. It will take us time, but we are working on that.

Q25 Mr Clapham: Roger was taking the university side, and perhaps I could complete that by asking what benefits you see the universities getting from the Department. It is a large Department and universities tend to stand apart or are stood apart. You have talked about the strategy of bringing people together, the synergy that will arise from that. Would you say a little just to reassure us of the benefit that the universities are going to get from the Department?
Mr Fraser: Of course the universities are a very important part of the overall vision of the Department and part of the mission of the Department, apart from creating a dynamic economy and conditions for business success, is about creating opportunities for individuals through learning and skills. That is absolutely central to the vision of the Department. In fact—if I can take his name in vain—if you were to ask Peter Mandelson what he thought in the long term were the most important mechanisms that the Department has at its disposal in order to achieve its overall objective, he would say the learning and skills and research parts of our operation because that is where the future economic comparative advantage and value-added lie. There is a tremendous commitment there in the Department to value the input the universities have. In no way would I say it is seen as an add-on, a slightly awkward add-on. It is really integral to the vision.

Q26 Mr Clapham: I could see that, provided it is going to be given that emphasis. You seem to be determined that it is going to be given that kind of emphasis.
Mr Fraser: Yes. We will not succeed if we do not do that.
Chairman: Brian has some supplementaries in this area.

Q27 Mr Binley: I have been fortunate enough to get a copy of the last survey carried out by BERR, presented in December 2008, on customers and the business relations in Energy Group. I am sure you will be aware of it. It was not the most glowing report. It was not devastatingly bad in any sense, but it really was not glowing in terms of support for business. For instance, let me make a couple of comments: "There has been a slight decline in confidence in BERR's ability to make a positive difference for business." "Ability to get things done and influence policymakers remain the key challenge." "Reducing the burden on business is also a challenging issue." "Greater communications and closer involvement in the sector are the key requirements over the next 12 months." Could you tell us how you have progressed from that particular point and how you have picked up those points made in the survey to improve the relationship with business?
Mr Fraser: I will ask John to come in on this because he has lived through that whole thing but, by way of initial comment, it is perhaps not surprising, given the economic conditions that we have been through, that business stakeholders felt that the Department's ability to influence the environment may be impaired. We have been through a very difficult economic period. Before my arrival in BERR the Department had clearly identified the need for influencing skills as one of its top priorities in terms of building its capability, and it was working very hard on that in the light of that survey. Another thing that came out of that survey was that those businesses who knew us liked us, but one of the problems was that there were a lot of businesses with which the Department was not engaging.

Q28 Mr Binley: Outreach was a problem.
Mr Fraser: Outreach needed to be stepped up, and we have worked on that. You referred to the regulatory environment and of course we have, through the Better Regulation Executive, been working on that, and we continue to do so. I hope that we will shortly be making some new announcements in the area of regulatory policy. Communications and outreach you rightly identify. We will be discussing in the board, I think next week, a new external stakeholder programme which, amongst other things, will identify top business stakeholders with whom we need to engage and will assign account managers within the Department to them to ensure that we are covering that, so a range of measures have been taken.

Q29 Mr Binley: I am encouraged. If we were able to have some written information which would help us with our findings, that would be useful.
Mr Fraser: In terms of the steps the Department has made?

Q30 Mr Binley: Yes.
Mr Fraser: We can certainly do that.
Mr Alty: Maybe one of the things which BERR was doing and now BIS is doing has been the take-up and development of our New Industry, New Jobs strategy and more active industrial policy. I think that has been very widely welcomed by business. That has led already to a number of specific sectoral initiatives, which again picks up on some of the points you were making about getting close to sectors. But it is a challenge. If you go back and look at previous surveys, on the whole there has been an improvement over time but that is not to say that there is not more to be done.

Q31 Mr Binley: Perhaps you could come to us, also, with some figures on regulation. We talk a lot about regulation in this place but getting the details of what has happened is not the easiest thing to do. An audit report of 2006 about what was then called the DTI—we could get lost in these names—made the point that business support mechanisms numbered 3,000 in the country at the time. There was a simple statement that we would reduce to 100, and I would like to know how you are going towards that target of reducing from 3,000 to 100.
Mr Fraser: This is the solutions for business—
Chairman: Brian, you have a big section on business support measures coming up later.
Mr Binley: That is why I wanted this question in quickly.
Chairman: Perhaps we would take that as the first question when we bring Brian in later, otherwise we risk treading on future territory. If I may, I will say that Brian can ask that question a second time when we come back to business support measures. You have forward notice of a question.
Mr Binley: You can think about it.

Q32 Chairman: Before I bring in Lembit Öpik, I want to make one cheap debating point about these two annual reports, one for which you have responsibility, albeit brief, and one, the DIUS one, for which you do not have responsibility. This is a budget of £25/£26 billion, and this is a budget of £1.4 billion, depending on how you measure it. This is £5.3 million a page, because it is 260 pages, and this is £293 million a page, because it only has 88 pages. Does this have a serious message for us about the way the two departments construct their affairs? Are you being otiose and longwinded in your report in justifying expenses, and are they being necessarily brief in justifying their expenditure, or are there underlying messages about the delivery mechanisms and the cultures here? Will this report double in size to incorporate this or more? What is going to happen? What is the accountability here?
Mr Fraser: I cannot really comment on the former DIUS report, except I recall that they were responding to a request from their select committee to make their report more accessible, because I think the year before there had been some comment that it was too inaccessible and it is written in a rather more accessible way. I can assure you of one thing: the report will not double in size.

Q33 Chairman: Thank you.
Mr Fraser: If anything, it will reduce in size—if I have anything to do with it, Chairman.

Q34 Chairman: I do not want to pursue it in public evidence session necessarily but I have some detailed points about the report. We had a disaster a couple of years back with one of the DTI reports which was incomprehensible and littered with errors. There has been a dramatic improvement. The consolidation of different accounting mechanisms in one document is a great improvement. It makes our job a great deal easier—I think the Committee agrees about that—but there are still some things which perhaps lack explanation. Perhaps I might discuss that with one of you or your colleagues at a later date.
Mr Fraser: I would be very happy to do that.
Chairman: Thank you very much indeed. We have agreed that there are some issues which you inherited about which you know less than might normally be the case because you were not responsible at the time. You will be asked about the Learning and Skills Council and we want some relatively forward-looking stuff on the Learning and Skills Council, on what you have responsibility for, rather than the history. Lembit will begin with the delivery agencies.

Q35 Lembit Öpik: I do have one particular complaint about the Learning and Skills Council which I do not imagine you can possibly answer but I will feel better about putting it on the record, and I will come back to that in a minute. Collectively you now have 74 delivery agencies, 74 delivery agencies which fall under your remit. How do you balance the management and resources in any strategic way when you have that many?
Mr Fraser: They are not all delivery partners; some of them are policymakers as well. It is important to say that they are rather heterogeneous and different, so we have to look at them individually and make sure that we are establishing the right relationship with each organisation. They all have clear tasks and mandates and they have agreements with the Department which delineate their responsibilities. I do not think it is impossible to have this set of organisations operating effectively, but clearly there is a challenge, as you pointed out, in terms of co-ordination and financial control and management control which we have to address. As I said before, I have asked somebody in the Department to conduct a review of all those relationships which we will be discussing in our management board. I have seen the draft of that. There are a number of very good recommendations and we will take those forward. We will also convene the second meeting of all the heads of these organisations with the Department—

next week—when the secretary of state will address them, I will address them. We are trying to generate an understanding of shared interests and concerns. There are a number of ways in which we can manage this and we have of course specific relationships between the organisations and different parts of BIS for which different managers in BIS are personally responsible.

Q36 Lembit Öpik: Does that review include consideration of whether you can rationalise or, in other words, merge some of those agencies?
Mr Fraser: The review is focused on how we manage the existing arrangements that we have under the existing network of organisations. We do not have a mandate to consider rationalisation of the delivery partners or partnership network as it stands at the moment overall.

Q37 Lembit Öpik: Would you like to have?
Mr Fraser: I am focusing on making what we have work as effectively as we can. It is rather early for me to make any judgment on that.

Q38 Lembit Öpik: It seems to be that you are not willing to commit at this point to the idea of rationalising the agencies.
Mr Fraser: Clearly what we need is efficiency in governance and efficiency in delivery. That must always be our overarching objective. As we go forward we will always have that in mind.
Lembit Öpik: That being the case, one of the biggest problems I have with my constituency work is that people do not know where to go for the money and support. Though we cannot pursue this in any great detail now, is there any valid opportunity here for creating some kind of a one-stop shop, so that even if you have 74 agencies the end-user goes to one place.
Chairman: I will remind you that Lembit has a Welsh constituency, which might add a dimension to the answer that you give.

Q39 Lembit Öpik: It could do, but the principle would be the same in either context.
Mr Fraser: That is certainly the policy that we have been pursing on the business side through Business Link. John, would you like to comment, because you have a lot more experience of how that has worked.
Mr Alty: Yes. There has been progressive moving of all our information, whether it is about financial support or regulatory guidance, onto the two government-wide websites. For business, that is businesslink.gov, and for individuals, it is direct.gov. In terms of a one-stop shop, that would be a good place to start.

Q40 Lembit Öpik: For the avoidance of doubt, you are saying that in your strategic plan you would see something like Business Link being the end-user's starting point, and they would not have to go and sift through 74 agencies because that would be done for them through the system.
Mr Alty: Yes. For instance, one of the agencies for which I am responsible, Companies House, has its own website, but the links have been put into Business Link. You can go through businesslink.gov and get into it that way if you do not happen to know where to go as a bespoke organisation.

Q41 Lembit Öpik: That is very useful. Moving on, BERR had a better record, it was judged, in terms of managing its delivery agencies than DIUS. Are you going to take a more hands-on approach now to dealing with the less effective delivery agencies, accepting that there is going to be variability of performance?
Mr Fraser: We are certainly going to take a hands-on approach to ensuring that our partnership network is effective, both in terms of its management and its operation. There are certain cases, one of which I am sure we will discuss, in which there has been inadequate performance, and clearly we have a responsibility to take a hands-on approach in making sure that that is both rectified and does not recur and we will. I am very clear in my role as accounting officer and, referring back to one of my earlier answers, this is one of my main preoccupations. This is one of the risks for the Department, that we have a shared responsibility as managers of the Department and leaders of those organisations to work together to avoid mistakes and enhance performance.

Q42 Lembit Öpik: That sounds great. How do you balance flexibility and autonomy of the agencies versus oversight?
Mr Fraser: "Balance" is exactly the right word, because of course the whole purpose of having these organisations is that they bring a degree of independence and expertise, in particular to the allocation of funding. Let us take the example of the research councils. Clearly there is much more expertise there in terms of allocating funds for research than we, as managers of the Department, could possibly bring to bear, so this is a very positive thing. We have to balance independence and expertise against our overall responsibility for effective performance and delivery. It is about management, it is about having the right checks and systems in place. I am afraid I am a great believer in systems: that you have systems in place and that people know how they refer to those systems. Then it is easy to sort of check and monitor progress. I think that is what we have to achieve.

Q43 Lembit Öpik: The Government generally is very bad at managing risk. Either there is a knee-jerk reaction to pretend that we can eliminate risk or, alternatively, things are not tended to. Maybe the word "balance" is the crucial thing here.
Mr Fraser: I certainly do not think we can eliminate risk. I do not think that is what we should be doing. We should be prepared to take risk/accept responsibility if mistakes are made. There is this concept of smart failure and dumb failure, and what I want to avoid is dumb failure at least.

Q44 Lembit Öpik: You have some experience of the Middle East where they accept a degree of failure is necessary in order to achieve a lot of success. We had

a very interesting conversation when we were in the Middle East on that subject. I promised to gripe and it is about the Learning and Skills Council. In my judgment they wrecked an otherwise successful local training company in my area. It is so bad and there are so many complaints about it, it warrants a specific question about that agency. How are you going to make sure that the kind of financial mismanagement which happened in the LSC is not repeated and that, as in my case, the end-users do not suffer as a result?
Mr Fraser: I cannot comment on the specific case.

Q45 Lembit Öpik: I am not asking you to.
Mr Fraser: But on the general case. Quite clearly in relation to one programme in particular, the FE capital programme, there has been an unacceptable loss of control. I would not want the whole of the LSC's activity to be tarred by that brush; it is important to say that the LSC has run a number of successful programmes and provided some very valuable outputs. We just have to be careful not to throw away the baby with the bathwater. That having been said, clearly in this case there was some bathwater, and we have to get rid of it. Of course that specific case has been analysed carefully through external and internal reports: the Foster Report as well as our internal work and a select committee report, and a number of measures have been taken. We now of course have a new interim chief executive in place in the LSC. We have just appointed the transitional head of the new Skills Funding Agency which we are moving towards establishing next March. Geoff Russell, who is the interim head of LSC, has introduced a number of tightenings of financial controls—I think you will find them on page 20 of the DIUS report. My job, our job, is to draw that together. We are working on ensuring that we have better financial information from the LSC and that there is better internal co-ordination in the LSC, but actually this problem arose because the regions were not properly in contact with the centre and therefore there was not control on what was happening in different regions. We have established a joint group between BIS and the LSC—a joint working group, if you like—to ensure that this goes well. We have established objective criteria for funding. There was this question about balancing demand-led funding as opposed to needs-based funding. They went too far down the demand route, if you like, and so we need better controls in assessing needs. In all those areas, action is in place, but if you were to ask me: "Is this on my top risk register?" the answer would be yes. This is a relationship which we cannot afford to allow to go wrong again. That is a hostage to fortune, Chairman, but we shall do everything we can to avoid it happening.
Lembit Öpik: In order to furnish you with the details of the company in question I will write to you about the specific issue. I do not expect you to resolve it today. Taking the strategic concerns from the specific tactical experience that I had, it sounds as if it is at the moment too soon—
Chairman: It is fair to say that we are going to ask some questions in the future. We have not discussed the Learning and Skills Council capital programme; the previous committee, the DIUS Committee, examined that. But we just have to put on record, as members of parliament, our appalling shock at what happened there. Just outside my constituency, an FE college made a firm promise—not in writing, but on the back of which it agreed to merge with a neighbouring college—and that promise has now been broken, and the financial arrangements of the new college are in a desperate situation as a result. It really is outrageous what happened. Although you have said the right words today, this is something for which we will very much hold you to account if there is a repetition of what happened.

Q46 Lembit Öpik: A lot of people are very bruised. A lot of people have suffered as a result. I think we have made that point quite clearly. It seems to me that some of the collateral damage to the LSC could be resolved by the transfer of responsibilities from the Learning and Skills Councils to the new Skills Funding Agency.
Mr Fraser: Yes.

Q47 Lembit Öpik: And also the Young People's Learning Agency. How are you overseeing that transition so that it does not create more problems? Are there any risks involved in terms of monitoring the work, because that seems to have been the problem in the first place?
Mr Fraser: Of course transitions always involve potential risk—that was one of our concerns in the Department over the summer—but I hope we have a pretty robust process in place for monitoring that transition. As I have said, we have just appointed the interim chief executive of the SFA, who is a current senior member of the LSC—so you have somebody who is bringing the knowledge with them—allowing the interim chief executive of the LSC to get on with running the business that we now have. It is important to separate that out. We have a dedicated team in BIS looking after this relationship and working on this transition, headed at director level by a very experienced person, so we have pretty robust procedures in place.

Q48 Lembit Öpik: By inference you are saying that you do not think there will be a problem in monitoring the work under the new arrangements.
Mr Fraser: One of the advantages of bringing this new body to agency status is that it will be more closely associated with and more directly accountable to the Department—which I think helps us. There is even a question about the physical location of this new agency and where we should locate it. We are looking at all those things. I would not like to say, "I don't think there will be any problems" because that would be a rash thing to say: it is a very complicated organisation with a very large budget and very disparate responsibilities. However, I can say that I do believe we are doing everything we can to avoid and mitigate those risks.

Q49 Lembit Öpik: I have just one observation here. My former trade was in training and development. It is notoriously easy for people to get money for things which turn out to be rubbish, because there are not very many people who really understand how to do training properly. There is no escape from the fact that, if you want this to work, you have to get the best professionals in charge of this. There is an awful lot of people who are not the best professionals. That has been one of the difficulties. Moving on to my final question: the NAO concluded that the Train to Gain Programme had not delivered value for money. The report does indicate that the Department has a different view. Why is that?
Mr Fraser: We have a different view. I will be explaining all this to the PAC[1] shortly. Our view on Train to Gain is that it was a new programme that was put in place; it was a pretty ambitious programme. It has been, in our view, successful and has made a real contribution in the economic downturn. If you look at the raw statistics, for example, it is pretty impressive: 140,000 employers engaged, 1.2 billion training courses, 600,000 now completed, a success rate of 71%. Those are raw statistics and of course they may hide other issues, but the raw statistics are very good. If you look at the satisfaction record among employers it is 91%, and among individuals it is 95%. Something is being done right. It has emerged from the reports—a point to which you alluded—that there are disparities of performance among training providers. We clearly have some work to do to improve that, to simplify it and to make sure that we are using the best trainers, but, as I say, it is a relatively new scheme, so we have to perfect it. The issue, in particular, to which the NAO allude is their belief that there was a certain amount of dead weight in this programme, and that the Government was providing funding for training which employers would otherwise have provided. We do not accept that. I do not know that there is evidence for that, other than what employers are saying. We believe, anyway, that the programme has enabled employers to provide training for people who would not otherwise have been trained (in other words, to go further in the provision of training) and to provide training in what are called "hard to reach" categories. We do believe that there is value for money in the programme, but I am perfectly prepared to have that discussion in front of the PAC and bottom these arguments out. I certainly would not argue that it is a perfect programme. We have been doing what the Committee invited us to do, which was to take a bit of risk and be innovative, and of course you do not get it 100% at the first bite, but I would argue it has been successful.

Q50 Lembit Öpik: What is its future?
Mr Fraser: We will review it and we will see. I do not know whether it has a specific end date provided, but I think we will want to continue this because we want to continue training. The provision of skills is an important part of our overall agenda.

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Q51 Lembit Öpik: The disparity in training providers is the key issue here. We do not have enough time today, frankly, or this week to find solutions to that, but it does seem to me that if you can find a way to get more objective measures of the effectiveness of training—and it means you have to be ruthless with the bad ones—
Mr Fraser: Yes.
Lembit Öpik: -- that is probably the great challenge facing this whole programme. Thank you.

Q52 Chairman: We will change gear and look at some specific business measures that Brian Binley is going to ask about and then at the automotive sector, but perhaps I could finish with a couple of questions on delivery partners. First of all, going back to the Learning and Skills Council and the new funding arrangements, I do not understand—and it is probably my fault—why the RDAs are now part of the picture in relation to the new agency, the Skills Funding Agency. A late change was made under the transition arrangements, devolving some responsibility to the RDAs. It seems to add complexity to a skill system that needs simplicity. Have I missed something?
Mr Fraser: Our understanding of this is that it simplifies the procedure. Previously there were duplicative arrangements in place for the provision of skills regionally and we are bringing that into one place through the RDAs. The objective there, therefore, is to increase simplicity, although the funding comes through the LSC. It also helps us to align the provision of skills training with the needs of business in the regions, and, therefore, we believe, should provide greater efficiency.

Q53 Chairman: It is an issue which we may return to. A more pressing concern perhaps is that the local education authorities are getting concerned to know exactly how the arrangements will work next April. It is getting pretty close for planning purposes. Are you happy that the local education authorities—the local authorities have responsibility for this funding from now on—are going to get the information needed in good time, because it is getting pretty close?
Mr Fraser: I am afraid I am not in a position to give you a detailed answer to that but I am happy to supply you with a note on that.

Q54 Chairman: Thank you. One final question about rationalisation of departments. There is one rationalisation which we are very keen on in this Committee. We find a bewildering array of delivery partners: executive agencies, executive NDPBs, advisory NDPBs, tribunal NDPBs, other bodies, non ministerial government departments, independent statutory office holders—the list goes on and on with types. Rather interestingly Postcomm and Ofcom are two different types. Postcomm is a non ministerial department and Ofcom is a public corporation. I do now know why that is the case, but I do not want to get too bogged down in that today. I am concerned to know, however, what is happening about the merger,

because that is one aspect of the legislation that everyone agreed was important. Postcomm is living in a state of regulatory uncertainty now, legislative uncertainty, not knowing its own future. We have all agreed that whatever needs to be done with Royal Mail, getting the regulation is essential—essential for its competitors as well as for the Royal Mail Group—and yet here we have this awful limbo in which Postcomm is living. We support the rationalisation of these delivery partners. When is it going to happen?
Mr Fraser: At the moment we have not been able to take forward the package on the Royal Mail, but we are now urging Postcomm and Ofcom to work very closely together to ensure that there is a regulatory symbiosis, if you like, between them. I agree it is not an ideal situation.

Q55 Chairman: From a management point of view, for you as the accounting office, this is a very difficult issue, is it not, because you have to keep the effectiveness of Postcomm going while its future is so uncertain?
Mr Fraser: That is correct. It is not an ideal situation but it is a situation we have to live with.
Chairman: It is a question to explore with your political masters in more detail. Brian Binley.

Q56 Mr Binley: First of all, before I go on to the more serious questions I wish to ask, I would like to have a response to the question which I gave you notice of. There were 3,000 business support schemes as identified by the Audit Office in their 2006 report. The promise from ministers that you would reduce that to 100 and I wonder what sort of progress you have made. We have asked previous ministers and did not get much of an answer.
Mr Fraser: John may be able to give more detail than me on this because he has lived through it more, but we have put in place a programme to look at this within the Department, run by one of our directors, which we have called Solutions for Business, which is a simplification programme. My information is—and I have to confess that I am not personally very close to this—that the 3,000 products have been reduced to 29—

Q57 Mr Binley: Even better than you said.
Mr Fraser: —in a streamlined portfolio. We are working with other government departments and the regional development agencies, for example, to deliver that simplification on schedule; for example, through the portals that John was describing.

Q58 Mr Binley: That sounds very good news. Would you send us the details of that, so at least we can put that one to bed?
Mr Fraser: Yes.

Q59 Mr Binley: I would be very grateful. Let me move on to the Government's recently undertaken support measures for business in general, including the Enterprise Finance Guarantee Scheme, the Capital for Enterprise Fund, the Working Capital Scheme, the Strategic Investment Scheme, the Trade Credits Insurance Top-up Scheme. We have had quite a bundle of packages, and business keeps telling me that, whilst the packages were a good idea, the management of the whole process has not been anywhere near as successful. Let me quote, for instance, on just two. We are told that the Trade Credit Insurance Top-up Scheme has only created 58 policies, which account for 0.1% of the total allocated for the scheme, and that the take-up has been so poor that the Government has had to widen the criteria for using it on two occasions—and of course it runs out on 31 December. Let us look at the Capital for Enterprise Fund, meant to be used to invest in young, small, innovative business. It was launched on 14 January; it has only invested in two firms in almost 10 months and those two investments were made in August; and with one of them, a company called Key-tech, it failed to do its due diligence properly. None of that gives great confidence to business that the schemes are working well and are being managed properly—which is a crucial element of the process. Could you therefore comment on that and also tell me how much has been spent so far on each scheme.
Mr Fraser: I am very happy to comment. The Department, in fairly acute circumstances, put together a range of schemes to provide support for business in the downturn, largely around access to finance and supporting the finance of businesses. This was done with some speed and the different schemes were designed to address different aspects of the problem. Overall there has been quite a lot of success in these schemes. The Committee itself has investigated the Enterprise Finance Guarantee Scheme and was fairly positive in its assessment of the scheme and its management. Of course in the Committee's report there were some supportive quotes also from business about the scheme and the management of the scheme. For example, Mr Cave, the Head of the Federation of Small Businesses, said, "I think we have no complaints about the speed at which it was rolled out. It is a testament to the Civil Service and BERR that they reacted as quickly as they did."

Q60 Mr Binley: You have had some compliments but since then we have had some rather less complimentary comments.
Mr Fraser: It is important for me to give a balanced view of our assessment of the scheme. In that scheme, for example, we have some pretty good take-up. It is true that in some of the other schemes the take-up has been less complete. I will ask my colleague John Alty to comment a bit more in detail on the specifics and the individual provisions within each scheme. The Capital for Enterprise Fund has had a slower start, but we think it is picking up. We have set ourselves a target of £55 million of funding by the end of this financial year. I think the figure you quoted for take up there has probably now been overtaken, but, John, can you give further detail on that. With the Trade Credit Insurance Top-up Scheme, which has been linked with the Working Capital Scheme, we recognise that there has been limited take up there. Of course this was never a

target figure that we were providing in terms of support for trade credit; we were just seeking to provide a facility to help companies whose cover had been reduced over a short-term period. The other thing I would say is that in some of these schemes where you are providing a guarantee facility, the fact that the scheme is not taken up is not necessarily, in the long run, bad news, if in fact businesses are finding alternative means of funding themselves.

Q61 Mr Binley: They are not, Mr Fraser, I can assure you.
Mr Fraser: For example, if we were to discuss the Automotive Scheme—

Q62 Mr Binley: We will leave that to the next question.
Mr Fraser: —it may be relevant there. It is a mixed bag of schemes. I entirely accept your comment that we need to evaluate the management of these schemes. We are in fact doing that at the moment internally. We have a process going on within BIS to evaluate the schemes and consider which of them are performing more successfully than others—given of course that they are time-limited schemes: each has an end date written into it. That is also an exercise that is taking place collectively in government, through co-ordination in the Cabinet Office through the National Economic Council, so that we are trying to get a handle on the relative performance and management of the schemes. Can I ask John Alty to come in with a bit more detailed information for you on each scheme?

Q63 Mr Binley: Of course.
Mr Alty: Picking up on the one you asked about specifically, the Capital for Enterprise, as Simon has said that has moved on. We have now offered £46 million to 30 businesses under that scheme. I understand that five businesses have received just over £6 million and another six have accepted offers of £10 million—so it is not just two, at least; it is ramping up.

Q64 Mr Binley: It has moved on a little.
Mr Alty: It has moved on a bit, yes

Q65 Mr Binley: To go back to the Enterprise Finance Guarantee Scheme, we inquired into that, as you know, and we found that banks were not offering companies a choice of support but were focusing on single measures. For instance factoring comes up all the time. As a businessman myself, I am not sure that factoring is the best thing to do when times are hard—let alone when they are good, quite frankly. How are you monitoring whether the Enterprise Finance Guarantee Scheme is being fairly administered by the banks, because our findings were that perhaps it was not?
Mr Fraser: We do monitor all the schemes. We monitor the take-up of the schemes. The figures I think are available, but I am happy to run through them or perhaps John could run through them in terms of where we now stand with the Enterprise Finance Guarantee. We also, of course, are in close contact with the banks, and we have lending commitments from some of the banks to support these schemes. Of course the Department, among other things, through our adviser Lord Sugar—who has this role to go around the country and talk to small businesses and banks—

Q66 Mr Binley: I am trying to contain my smile a little.
Mr Fraser: He has the role of talking to small businesses to make sure they are aware of the schemes, and talking to banks to make sure that lending is appropriately in place. We have a range of mechanisms for trying to make sure that we are advertising the schemes and monitoring their performance.

Q67 Mr Binley: All the evidence we have pretty much received in the inquiry and all of the information I am getting from my local businesses is that the truth of the matter is that this money is not getting through. I have had to phone up senior people at banks six times in the past two or three months and to kick doors down, but it was the only way that it got things moving. It should not need that. I know why banks are concentrating on factoring, but perhaps you could tell me why you think they are and what help you think that is to business, bearing in mind the cost to small businesses of factoring.
Mr Fraser: I am not sure I recognise the suggestion that the money is not getting through because our figures are that we now have over £840 million worth of eligible applications under this scheme from more than 7,300 firms, and that in fact over 5,500 firms have been offered loans totalling £560 million. Those figures suggest that the scheme is biting and that the money is getting through. I cannot answer in detail your question about factoring.

Q68 Mr Binley: Could you look into that?
Mr Fraser: I will look into that.
Mr Binley: I would be grateful.

Q69 Lembit Öpik: Thank you very much, Mr Binley. I have just spent 20 weeks with a company called Regal Fayre that wants to set up in my constituency. We have succeeded in doing that but what I learned about the process—accepting that it is in Wales so there are a few slight differences—is that had I not intervened the company would not have got the money. In fairness to RBS, they have really come up with the goods now, and Finance Wales and the Welsh Assembly did in the end, but I am concerned that the system ultimately depended on my intervention as the local Member of Parliament. While obviously I am really pleased to have helped Regal Fayre, I am not sure the system should work like that. What can you do to make the system accessible in such a way that it is not crucially dependent on the intervention of the local parliamentary representative? What can you do to make sure that the companies themselves can access the support in a way that ultimately is not random, because it is random and if I had not spent the time we would not have got the money?

Mr Fraser: It is quite difficult to offer support to every individual company but through the mechanisms we have, both for advertising the schemes and making sure that the information is accessible, and through the regional systems we have, through the RDAs for example, there are means available to provide support to companies. In a sense, this sounds to me like it is in large measure a question of companies' knowledge about where to go to get the support that is needed.

Chairman: Could I interrupt for a second. I have a lot of sympathy with the point Lembit is making. It happens across the public sector and it is not unique to your Department. For example, I resent having to intervene to get people's rights; it should happen automatically, and that happens a lot. One of the concerns I have locally, and I do not know how broad this is more nationally, is that the Business Links service used to be delivered through my Chamber of Commerce, which understood the local trading environment and could have a direct and personal relationship with the businesses who needed this help, whereas now it is delivered regionally through Birmingham, much more remotely and much less personally, and so it is much more difficult for the mechanism to deliver the outcome and we have to intervene. That is my concern.

Lembit Öpik: It is great, as the Chairman suggests, and it is very satisfying as an individual to do it, but I recognise that the system in some way has already failed when we end up being what amounts to being the finance director for new initiatives. I am not expecting of course for you to comment on the specific example but it is a generic issue which comes up time and time again and at the end of the day that means that some businesses succeed or fail based on the competence and the financial capability of the local Member of Parliament. While I have every respect for my colleagues, I am not comfortable that that is how the system should work.

Q70 Chairman: Let us leave it at the strategic level rather than personalities.

Mr Fraser: I will invite John to comment if you permit. Just at the strategic level, one of the issues we always face in government is a balance between the amount of raw resource that we are able to deploy to the implementation of schemes, particularly in current circumstances. One would always want to provide a higher level of service than one is able to so we have to make difficult choices. May I ask John to supplement that?

Mr Alty: Simply to say first that I would agree that viable businesses should not have to employ special means to get access to finance. I think that on the schemes we have been talking about like the Enterprise Finance Guarantee Scheme, I do know that the team who are running it, as Simon will say, have regular contacts with the banks and they have regular contacts with the business organisations who no doubt are able to feed those points back, so clearly from what you said everything is not working perfectly but it is important for us to get that feedback and to keep working on it.

Lembit Öpik: Thank you.

Mr Binley: Can I just follow that up a little bit because when I go to the top guy at national level in the banks, the guy dealing with it who has direct responsibility, I get very positive answers. It is the guy in the middle, who in fact takes his lead from a number of directors, and he has to balance building bank assets with putting the scheme into effect and it is in the middle that it is going wrong. It is always the guy at area or region that is the problem. Could you look into that because we should not have to kick doors down like this.

Chairman: I think we are now looking into the management structure of private banks. We own some of them of course!

Q71 Mr Binley: It is about how the scheme is being managed, Chairman, and we have made that point.

Mr Fraser: We are aware certainly that difficult decisions have to be made at different levels in the banks and in present circumstances when banks are more risk averse than they were in the past there is evidence of reticence sometimes, I believe, and we are conscious of that and we are seeking to address it. There is another question which is that sometimes when you speak to the banks they say that demand has not been as high as they might have expected, so I think we do need to keep looking into and examining the circumstances, as John has said, to improve and refine the schemes and the delivery of the schemes.

Mr Binley: I am grateful. Let us go on to the total expenditure on promotion of business creation and growth, which is projected to be reduced from £671 million this year to £539 million in 2010–11. Can you tell us a little about how this reduction will be achieved? Can you tell us if the money has been reallocated between programmes and what impact this will have on support and services which the Department offers?

Chairman: This is page 43, chapter 2, of the Annual Report and it is a table which I thought raised a lot of questions.

Q72 Mr Binley: Yes, it does.

Mr Fraser: Can I just make a general comment, Chairman and then I will ask Howard Orme to come in. As we look forward at our budgets this year, next year and beyond, we are facing pretty acute pressures across the board and we have had to make some choices already about our programmes going forward and next year we are going to have to find some economies, so we have gone through a process within the Department across the whole Department in a collective discussion between directors-general about where we might be able to find those savings. I think inevitably we are going to see savings having to be made. There are issues about the ring-fencing of our budgets in some areas and there are issues about prior commitment to some of our budgets

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which makes this a complicated exercise. That is just by way of general comment. On your specific figure this is the reduction.

Q73 Chairman: The total resource expenditure in DEL.
Mr Orme: I think the principal swing between the years is the scrappage scheme, the £300 million which is programmed for 2009–10 but has just been extended to £400 million, which we expect to spend this year. Then we drop back to levels without that. You can also see down in the capital element the Strategic Investment Funds kicking in for the two years, so these are specific measures that have been put in in response to the economic position and it is assumed that they can drop out.
Mr Binley: Fine.

Q74 Chairman: Brian says fine and it may well be fine but this is an example of a table where what I was going to do with you privately, frankly, was to say that more explanation would have helped because there are huge flows going on in this table between capital and revenue and huge changes in the revenue figures which often look not quite inexplicable but which demand explanation. There may be a rationale for the fact that total resource expenditure for creation and growth of business, which is one of your core functions, is down in 2005–06 from 747 to 538 in 2010–11. Spending of money is not always good, but we need to know about it, and I think this is a table which needs to be fleshed out with much more explanation to help us understand what is going on because some very significant decisions are being taken and encapsulated in this table without, in my view, a clear explanation.
Mr Orme: I think this scores for disclosure but it does not score for explanation; I take that point.

Q75 Chairman: It might be helpful to have a bit of explanation.
Mr Fraser: I agree.

Q76 Mr Binley: My final question is around something that the National Audit Office told us. They said that even though the Government's emergency schemes will be open for short periods "the liabilities with rest with the Department for many years". Can tell us what are the current liabilities for these schemes and has the Department any arrangements with the Treasury about how it will fund those liabilities should they be greater than envisaged because it could impact upon your ability to operate as effectively as you wish to in years to come, could it not?
Mr Fraser: When we take on these schemes we build provisional liabilities into the budgeting. For example, under the Enterprise Finance Guarantee we have actually capped our liabilities there at £120 million and that is provided for. There is also a residual liability under the predecessor scheme, the Small Firms Loan Guarantee, which we have to carry forward where we have calculated that we have a residual liability over eight years of about £215 million, and that is provided for. These provisions are all made on clear auditing advice. There is some risk of course that the liabilities may be greater than is provided for but we believe that we are making appropriate provision. When we come to discuss the automotive sector of course the same issue comes up and we do have to be very careful in assessing the risk and the likelihood of default in all the undertakings that we make.

Q77 Mr Binley: My real concern lies in the fact that support will really be needed when the green shoots are being picked up by SMEs particularly, and I am just concerned that that overhang does not impact on your ability to support those sorts of recovery operations.
Mr Orme: Page 199 in the Annual Report, in the third line up from the bottom on the bottom right-hand side, shows the development of the guarantees that we have got and I would expect when we come to re-evaluate these at the end of this year there will be an increase, and it is budgeted for, but until that calculation has been done I cannot give you a number. I think you have referred to arrangements with the Treasury. Each one of these schemes and the probabilities of default and the systemic risk is discussed in detail with the Treasury, so we do have a plan should these scenarios not turn out as they are shown here.

Q78 Mr Binley: And the fear of it curtailing some of your activities in terms of aiding recovery, is there any concern there?
Mr Orme: I think there has to be a concern that if liabilities worsen over time then we have to deal with them.

Q79 Mr Binley: So there is a risk there that it could inhibit you in those terms?
Mr Orme: There is a risk, yes.
Chairman: At least you have lost the Nuclear Decommissioning Authority. That is one thing that does not keep you awake at night any more. There was risk!

Q80 Mr Oaten: Let us talk about cars for a little bit. When we looked at the Automotive Assistance Scheme back in the summer in July we found that not a single penny had been advanced through the scheme. Has it got better?
Mr Fraser: The scheme has now made a loan of £10 million to Tata Motors European (TMETC) for the production of electric vehicles. That is the first actual specific loan.[2]

Q81 Mr Oaten: What percentage does that represent of the amount that you were making available?

[2] The Department has subsequently clarified this statement to read "The scheme has now made an offer of a loan of £10 million to Tata Motors European (TMETC) for the production of electric vehicles. That is the first actual specific loan."

Mr Fraser: The £400 million is the total amount of the scheme. We were also of course in negotiation with JLR and were prepared to make a loan guarantee in that case. The money to Tata is an actual loan.

Q82 Mr Oaten: So when the Secretary of State announced a £2.3 billion package of loan guarantees, what was that then?
Mr Fraser: The provision that we make, the £400 million, is the provision that we make for the guarantees. That gives guaranteed loans of up to £2.3 billion, if you see what I mean. That is the provision we have to make within our budget.

Q83 Mr Oaten: Perhaps he should have announced it was £400 million.
Mr Fraser: No because the amount of money that can be supported by the provision that we have made is the larger amount.

Q84 Mr Oaten: I was off the day we did maths at school and I am struggling. The Secretary of State announced a £2.3 billion package but that is not government money?
Mr Fraser: Perhaps John could explain it more clearly than I.
Mr Alty: As Simon said, we are issuing either loan guarantees or loans. I think—and it might need Howard to confirm this—

Q85 Chairman: The parcel is being passed!
Mr Alty: The £400 million is probably the provision that we need to make against the risks inherent in that because there are always risks inherent in a loan. Is that correct?
Mr Orme: At a risk of coming in as a third on this one, the amount of resources available is £400 million. It can either go directly as a loan or as a loan guarantee where we either hope to have the money back if it is a loan or if it is a guarantee we trust that it will not necessarily default, so £400 million is available to cover that risk.

Q86 Mr Oaten: Of the £400 million that was made available actually only £10 million has been lent?
Mr Fraser: £10 million has been lent.

Q87 Chairman: And nothing has been guaranteed?
Mr Fraser: We were in negotiation with JLR and were prepared to make a loan guarantee to them should they seek assistance. In the end they decided not to take that up and they found their financing elsewhere. There is currently a negotiation going on with GM Europe. You will be aware of the story, and that is very current and is on-going, but part of that negotiation would involve potential financial support from governments for whatever agreement is reached and that would potentially be a call on this scheme. We have other pipeline negotiations. We have engaged with about 20 companies in negotiation on this scheme and there is a pipeline which could actually amount, if they were all to come off, to a total of projects guaranteed by the scheme of £2 billion. So there is no shortage of negotiation. Obviously we cannot fund all those, but they will not all come off, so although we have not got the money out of the door at the moment, there is activity around the scheme.

Q88 Mr Oaten: Do you think it would be easier for more to apply if you changed the thresholds so that you reduced the thresholds? That would perhaps allow more ability for people to apply?
Mr Fraser: The threshold has actually been lowered over the summer. I think it was Ian Lucas who informed the Committee of that.

Q89 Mr Oaten: It is down to?
Mr Fraser: It is down to £1 million.

Q90 Mr Oaten: We were recommending that. When did that happen?
Mr Fraser: That happened in the summer.
Chairman: My recollection is that your response to the Committee did not actually say that but my recollection could be wrong. You indicated flexibility in the application of the lower limit but you did not confirm that figure. It is welcome news if you have confirmed it but my recollection may be wrong.

Q91 Mr Oaten: Was there a big announcement about it?
Mr Alty: Ian Lucas said that we would entertain applications for less than £5 million and I think we were awaiting the response that we put out to last month to your Committee before confirming the new arrangements.
Chairman: We were grateful for that very constructive response so thank you.

Q92 Mr Oaten: Do you feel that this new announcement about the change of threshold is widely publicised and that industry is aware and alert and knows? You are confident that is out there at the moment and people are aware?
Mr Alty: Over the summer, as Simon was saying, in our discussions with the industry we were already making clear that we were happy to look at lower amounts so it will just confirm it.

Q93 Mr Oaten: Simon you issued a long list of discussions that were taking place and if we went back and asked the individuals involved would they say to us, "Look, it is taking a long time because it is complicated," or will they say to us, "Actually the Department is dragging its heels and that is the difficulty"?
Mr Fraser: The Department is not dragging its heels. These are complicated issues because they are around restructuring of companies and they are strategic issues. This is not just giving people money on a short-term basis. The conditions of the funding are linked to the future viability of companies and particularly related to their investments in low carbon-related technologies. Let us take for example the case of GM Europe. It is part of a very big international issue affecting the United States and other European countries, and our potential

provision of support under this scheme is part of that wider negotiation. If you take the case of JLR, there was a negotiation that went on. Actually I think we felt at times in that negotiation that the company was not as rapid in coming forward as it might have been in parts of that negotiation. In the end they decided to take their funding from elsewhere which is a perfectly acceptable and good outcome if it meets the company's needs because after all that in the end is the predominant requirement.

Mr Oaten: I want to come on to the scrappage scheme in a second but I just want to probe a little more on the actual £2.3 billion announcement that was made and the big contrast between the figures which appear on page 43 in terms of the support for the automotive industry of £300 million. Help me again with the difference. It is all about transparency of announcements.

Q94 Chairman: The £300 million is entirely scrappage.

Mr Fraser: The £300 million is a different scheme.

Q95 Mr Oaten: That is just the scrappage scheme so when the announcement was made for £2.3 billion what were you realistically putting aside?

Mr Orme: It is not in these forecasts. It was an arrangement we had which Treasury hold for up to £400 million, so it is not reflected in these numbers.

Q96 Mr Oaten: I still do not understand why the announcement was not for £400 million.

Mr Fraser: Because £400 million is the provision that is made by the Treasury and it supports lending of the larger amount, the £2.3 billion. It is the provision that we have to make in order to support the guarantees on the basis of a calculation of risk of default on that lending, so therefore we are able to make a calculation which means that the money that is provisionally set aside by the Treasury is less than the total amount of the lending.

Q97 Chairman: I want to test this system a bit more. You are saying that any support for GM Europe would come out of this scheme. That could be a very significant slug of the money. Although I am very critical of the Department for the time it has taken to get funds out, it seems to me that there is no point anybody else applying because it will all have been used up by GM Europe. It will take a huge slug of the money if it comes to that, will it not?

Mr Fraser: I did not say that any support for GM would come from this money but if there is an agreement to support GM obviously this scheme would come into play.

Q98 Chairman: That is a very elusive answer.

Mr Fraser: GM Vauxhall is obviously a large company and it would potentially be a considerable call on this scheme. There are other potentially considerable calls on the scheme as well and we will have to make a judgment about the appropriate levels.

Q99 Chairman: So you have paid virtually nothing out in the whole year so far and suddenly there is a great flurry that bankrupts the scheme?

Mr Fraser: We certainly have no intention of bankrupting the scheme. What I would like to say on this is that it is not necessarily correct to criticise the Department for not getting the money out so far because there has been a lot of negotiation. These are long negotiations and of course we do not want to just put taxpayers' money behind any old sort of agreement or scheme. It has to be very carefully thought through but there is a lot of negotiation in the pipework with a number of different companies.

Q100 Chairman: We are treading on questions that we should properly ask your political masters. I should tell you in this private conversation that we are having that I do hear the industry saying that they think ministers' hearts are in the right place and they are trying to deliver the outcomes but officials are unnecessarily pernickety in their approach. You are the custodian of public money and I expect that the Public Accounts Committee will take a different view, but could I contrast it with France where money is pouring out of the French Government to support all parts of the supply chain and manufacturers. Right or wrong and what the long-term implications for taxpayers are, we could discuss, but it is certainly a very different approach the other side of the Channel.

Mr Fraser: I do not think there is a difference of approach between ministers and officials on this issue but of course officials have to conduct the negotiations and support the policy with properly worked through negotiation. That is as it should be, but there is total support for the policy line that ministers are taking.

Q101 Chairman: So far we know that from 27 January when the scheme was announced the total contributions to the sector are a £10 million loan and that is it.

Mr Fraser: That is the total amount that has been put out that has been spent under the scheme. That does not imply that the scheme is failing. I would not accept that implies the scheme is failing.

Q102 Chairman: It is certainly on notice of failure possibly. The recession has been going on a long time now.

Mr Fraser: We can only make payments if companies seek payments and the fact is that although we are in negotiation with certain companies we have not reached agreement on outcomes.

Chairman: Ministers in giving evidence to this Committee and before the House of Commons have talked of this pipeline for months and months and months now and one single loan has emerged from the pipeline. It is better than nothing I suppose but not much. Scrappage?

Q103 Mr Oaten: Maybe a more successful area has been the scrappage scheme, or so we are led to believe in terms of the impact that it has had, but is

there not a danger that all we are doing is creating a bit of a false economy in that we are bringing forward car purchases for individuals which would have happened anyway at some point?
Mr Fraser: The scheme has certainly been successful in terms of the support that it can garner from industry and the public and the fact is that there are now already 240,000 orders for new cars under this scheme and £120 million has already been spent and in fact further orders have exhausted the £300 million of the original budget hence the extension of the scheme by a further £100 million. It has been successful in terms of the stimulus that it has provided to the sector. Yes, you are right to point out the risk that in a sense this is drawing forward sales which would have been made in the future, and that is an issue and that is a question which has to be addressed and considered.

Q104 Mr Oaten: What evidence are you getting that that could be the case? Are people now beginning to say this is great but come this time next year we are going to be in serious trouble because there will be absolutely nobody around buying cars because they have all done it?
Mr Fraser: Since the scheme is still in place we do not have empirical evidence for that and we have not seen what will happen when the scheme ends.

Q105 Mr Oaten: I cannot accept that. You must have some evidence to know what people's purchasing patterns are. The industry must be telling you something about the likely impact that is going to happen.
Mr Fraser: I will ask John to comment on that. The industry has of course supported the scheme and the extension of the scheme, and industry's expectation is that the market will pick up in the first half of next year, so I think it is partly about the timing. We do not have empirical evidence at the moment about what happens when the scheme stops. John, do you want to add to that?
Mr Alty: We do have some consumer research-type information which obviously is very difficult to compare with what would have happened, but the figures that we have seen suggest that almost 60%—58%—of people purchasing under the scheme would not have bought any car now if not for the scheme, 71% would not have bought the car they did except for the scheme and some of those would have bought second-hand, so there are some figures that we have about consumer behaviour.

Q106 Mr Oaten: And the bit that I have never quite understood is that some people say that one of the impacts is a greater impact on the small car industry and as a result of that it is actually benefiting overseas manufacturers who are bigger players in the small car area than we are. Is there a concern that you have there?
Mr Alty: I can give you the facts as it were which is that a large proportion (85%) of overall UK vehicle sales are imported so it is inevitable that quite a proportion of the scheme will go on imports. Equally, of course, there are other schemes in other Member States which operate in the same way, so it is a sales-based scheme. However I think it would be fair to say that we knew that because of the make-up of the market when the scheme was launched.
Mr Oaten: So in effect we are helping, although I would not necessarily put it in this way, foreign competitors through the scheme disproportionately more than our own?

Q107 Chairman: Perhaps you would like to talk about Ford engines, for example, and Tier one suppliers to European manufacturers, if I may lead our witnesses briefly.
Mr Fraser: We can indeed because it is true that under the German scheme Ford engines produced in this country have been very much a beneficiary of this scheme. It is true that in the pattern of the scheme we have detected people are going for lower emitting vehicles. There is about a 15% on average lower emission in the new vehicles that are bought this year as compared to last year, which is good, and it probably implies smaller vehicles as well. Of course this scheme does not only helps manufacturers; it helps the whole supply chain and retailers in the sector so it has a broader impact which is domestic as well as the potential impact for imports.

Q108 Mr Oaten: It is swings and roundabouts.
Mr Fraser: There are many aspects of it.

Q109 Mr Oaten: The budget for 2010–11 shows that the scrappage scheme is scrapped from your budget in essence. Are there any plans to revisit that if the industry says, "Look, this has been so successful we think if there was another bit of money it could just keep us going for another six months"?
Mr Fraser: There is no such plan.

Q110 Mr Oaten: So they really are on their own?
Mr Fraser: It is a limited scheme.

Q111 Mr Oaten: Which has been extended once before so why would you not do it again?
Mr Fraser: Because I do not think that would be an appropriate thing to do and ministers have decided not to do that. They do not have the intention of doing that.

Q112 Chairman: It is fair to declare a public interest, I think it is right that the Secretary of State suggested an extension to the scheme on the basis (a) that it was probably self-funding for the Treasury overall because of VAT payments and so on and (b) there was an absolute assurance from the industry that it would not seek a further extension, and on that basis I was content to give provisional support to an extension and I am personally pleased that it has been extended, but I do not think industry will seek a further extension and they have made pretty clear commitments that they will not. There is the risk of bringing forward sales. It is just a question of getting through the crucial time. One more question on the car sector though, changing gear a bit, to use an appropriate metaphor: MG Rover and the

Companies Act inquiry. I do not want to bog you down in the inspectors' conclusions because that would probably take us the rest of the week, but I do want to ask some questions about lessons learned from your departmental perspective at this stage. Everyone seems to agree that the inquiry took too long and cost too much. What have you learned as a result of that general accusation about the Department's involvement in such inquiries?

Mr Fraser: I think we believe that the inquiry was worth doing and has thrown a lot of light on what happened, so it is a valuable contribution. It certainly was a very complex inquiry. It covered about 34 companies and of course it spanned a five-year period so it is not surprising that it took time. We do recognise that it did take quite a long time and that the costs were not inconsiderable, but, as I say, it clarified many important issues in relation to what happened. I think that in future we will learn some lessons from that. In particular—and again John may be able to comment in more detail on this—the fact that the revision of the Companies Act gives us greater powers to direct the scope and direction of future inquiries is an important element. That applies to inquiries which have begun since October 2006. The Rover inquiry began in 2005 so was not covered by that provision, but I think that will help us in future. Do you want to add?

Mr Alty: I should say that I was a witness before that inquiry so I have been, if you like, on the side of the Department that dealt with the issue of Rover rather than with the inquiry. However, the report has now been written and the Companies Act falls within my responsibilities so, as Simon says, I think it is important that we made those changes which will give the Government more control, if you like, over future inquiries.

Q113 Chairman: Your answers have actually anticipated two questions that I wanted to pose to you as lessons learned. First of all, you talk rightly, Mr Fraser, about the new power for the Secretary of State to limit the time available for an inquiry but how will the Secretary of State, presumably acting on your advice, manage any potential conflict between the independence of the inspectors and that kind of time-limiting guidance?

Mr Fraser: I will have to ask John to give a more precise comment on this because I am not clear whether the revision of the Companies Act allows us to limit specifically the period of the report.

Mr Alty: For instance, it does allow us to require them to take no further steps in the inspection, so it could impose a deadline on it in that way. I agree with you that this is not a totally straightforward issue that the Government could just decide. It would depend on the type of inquiry. Clearly the Rover inquiry was a particularly complicated one and one in which the Government was also, as I said earlier, a witness. That is fairly unusual. I think it would depend on the type of inquiry it was, but it might be possible for the inspectors to carry out some preliminary work which would identify certain aspects which were important and then for the inquiry to be limited to those aspects, but I am talking hypothetically.

Q114 Chairman: What you are telling me about the MG Rover case effectively—and this is not a critical question, it is genuinely seeking an answer—is that were such an inquiry to happen again (and it is difficult to see the circumstances) there is every chance that we could have a similarly protracted inspection period?

Mr Fraser: I do not think we are saying that. What we are saying is that there would be scope through discussion to agree with the people conducting the inquiry where the focus of the inquiry should lie.

Q115 Chairman: Whereas we have not had that scope before.

Mr Fraser: Which we did not have before. My understanding is that we did not have that control on the process through the process.

Q116 Chairman: In retrospect, would you have wished to have had that control over this particular inquiry?

Mr Fraser: As you said at the beginning, there is a recognition that this inquiry took quite a long time so it might have helped us to bring it to an earlier conclusion.

Q117 Chairman: On that very point, I was intrigued to see that Mr Alty had actually given evidence to the inquiry. The powers given to inspectors under the Companies Act to compel the production of documents and attendance of witnesses does not apply to government and I wonder if you could tell me if there is any guidance on how civil servants should co-operate with investigations established under the Companies Act?

Mr Fraser: I have a layman's view on this, Chairman, which is that if we establish inquiries that we should of course co-operate with them, as we did in the case of Rover. John probably has a more expert view on this.

Mr Alty: I am not sure it is much more expert. The fact is that we did co-operate in that case and, for obvious reasons I think, if the Government were involved in an inquiry of that sort in some way then there will be quite a strong incentive for the Government to co-operate because otherwise people would ask why we were not.

Q118 Chairman: For example, were all documents requested by the inspectors supplied in a timely and complete fashion?

Mr Alty: I think they were supplied. There was a discussion initially about the scope of what the inspectors wanted.

Q119 Chairman: How long did that discussion take to reach a conclusion?

Mr Alty: Documents were released. I am not sure how far I should get into the detail of all this now because I have not got all the facts at my fingertips. As I say, I was on the other side of the Chinese wall, but there was a series of releases of documents.

Q120 Chairman: I am struggling to understand the reasons for the delay in the inquiry. I have heard some speculation that additional witnesses were sought or appeared towards the end of the inquiry and I am just wondering whether that was civil servant witnesses and if that was the case was that because the inspectors were late in asking the civil servants or was there some resistance to allowing civil servants to give evidence earlier on in the inquiry?
Mr Alty: I do not think there was a reluctance to allow civil servants to give evidence. Again, no doubt the inspectors could give you a view, but my understanding is that an initial set of people was asked to give evidence and then in the light of the evidence they gave the inspectors asked to see further people.

Q121 Chairman: I am not going to push this too much further because I appreciate the sensitivities involved and heaven knows what may flow yet from the report, but I am anxious to make sure that future Companies Act investigations are conducted in a timely fashion without compromising the essential independence of the investigators and that tension we have referred to already. I understand that if for any reason witnesses are late and then give new evidence it can open up a new line of enquiry at a later stage, so there is a tension here that has to be resolved, and I think I will just note that at this stage and pass on unless there is anything you want to add.
Mr Fraser: I do not want to add anything, Chairman. I think you highlight some important issues and to some extent this is new territory and will be addressed in the future. It is my understanding that the inspectors did not attribute the delay in this case to any particular witnesses. That is my understanding.
Chairman: Fine, okay, thank you very much. In that case we will move to a completely different subject: construction.

Q122 Mr Clapham: The construction industry is enormously important to the UK economy. When we conducted our inquiry we found that there were 274,000 different companies involved in construction and (before the recession of course) 2.2 million people employed and it does make a great contribution to the economy. It is an important industry and one of the things that we recommended and were delighted to see that it had been picked up is that we get a Chief Construction Officer. Is it possible to say how the role of that Chief Construction Officer may differ to what was recommended in the report that we put forward?
Mr Fraser: First of all, I fully agree with you on the importance of the construction industry.

Q123 Chairman: And can we say a big public thank you to the Department, by the way, for endorsing our recommendation. We are very grateful and regard that as a real gain to the Department's work over the last few years.
Mr Fraser: We are always happy to be thanked, Chairman. Do not feel in any way inhibited!

Q124 Chairman: We try not to be actually!
Mr Fraser: So it is clearly a very important part of the economy and of course it is cross-cutting and since the public sector has a very important role to play in that construction industry because we commission a very considerable proportion of construction work, I think it is a valuable proposal. We took your recommendation and consulted in government and outside with business and the proposal that has been made now is that we actually appoint someone called a Chief Construction Adviser who will not be a civil servant but will come from business and will advise government on construction issues, including the low carbon aspects of construction and how to get the best value for money from construction projects and so forth, so I think it is a very valuable contribution to be made. My understanding is that we are hoping to make this appointment in November.

Q125 Mr Clapham: The reason I asked whether it might differ is because one of the things we have picked up is that it may finish up being just a part-time post. I think that it would be a setback if that happened. Could you say at this point, whoever it is who comes in as Chief Construction Officer, where they are likely to be based?
Mr Fraser: On your point about part time I think it is indeed the proposal that this person should probably be on a three or four-day week basis. I am not quite sure what the detail is. The important thing is that we have a qualified and senior person with experience, not just in Whitehall, who can make a valuable contribution to our work in this area. I think that this person will have a close relationship with our Department and of course with the OGC who have a leading role in this area as well.

Q126 Mr Clapham: One of the things that we were struck by—and I think it comes down to why we recommended that we should have a person actually overseeing the construction industry—was its fragmentation, and it seems that if we are going to have somebody who really is going to co-ordinate the industry as it should be co-ordinated then what we will need to see is some person who has support and resources at their disposal to ensure that the role is effective. Could you say anything about the resource that is likely to be there and how this guy is likely to work with that resource?
Mr Fraser: I agree with you that it is important that this person has leverage and influence in decision-making and therefore the resource that is necessary to make a difference. I think there is a question as to whether that is most effectively achieved by setting up some new organisation or whether in fact it is most effectively achieved by deploying behind this

person the resources that actually exist in Whitehall in this area. If we can do it successfully the latter is probably a more promising course. As you rightly say, that depends on our Department as well as others actually making a success of this. All I could say is that in the cross-government discussions that I have participated in on the economy and on construction the importance of this sector has been really heavily emphasised in recent months.

Q127 Mr Clapham: I think the very fact that we have got the stadium being built here in London has been a reinforcing factor. We have seen of course many job losses in the house-building side of construction, but it really does need to be, in my estimation, a post that gets the support and the resource to ensure that we can keep our competitiveness in construction. Your Department now is focused on that objective of ensuring the competitiveness of British industry, so we do really need to see that the construction industry remains competitive given its importance to the economy.
Mr Fraser: Absolutely.

Q128 Mr Clapham: Just turning now to, as you mentioned, the environmental aspects of building and the BREEAM[3] standards. Is it possible to say whether this target is being met and how is your Department really performing? Are you ensuring that BREEAM standards are actually implemented?
Mr Fraser: Could I ask Hilary Douglas to comment on this.
Ms Douglas: The excellent BREEAM standards apply to new builds and we have not had much to do with new builds for some time, but the Insolvency Service, which is one of our agencies, has recently moved into new accommodation for some of its regional activity and those have been BREEAM "excellent" ratings. We also intend when we have completed the refurbishment of our headquarters building in 1 Victoria Street to do a BREEAM rating of that and we are building energy efficiency into all of the refurbishment activity. The other thing I can say is that the carbon footprint of our HQ offices has reduced by 31% over the last five years and we have further interventions in place which will give us a further 10% energy efficiency saving in the next year or so, so we are very conscious of these issues whilst operating within buildings which are not as modern as they might be.

Q129 Mr Clapham: You mentioned there new builds. I thought that where we got refurbished buildings those standards would also apply.
Ms Douglas: That is right, so when we have completed the refurbishment of 1 Victoria Street we will do a BREEAM assessment on it and we are targeting having a very good BREEAM rating for that.

Q130 Mr Clapham: So you really do see this as being important and you do take steps to ensure that your environmental impact is kept to a minimum?
Ms Douglas: Absolutely. We feel we ought to set an example here. As I say, we have to work with the buildings that we have got and so the ratings that we currently have are not always as good as we would like them to be, but we are taking all the interventions that we can to improve the energy efficiency, increase our waste recycling and reduce our carbon footprint.

Q131 Mr Clapham: Finally, do you have a role in ensuring that other departments also conform to BREEAM standards?
Ms Douglas: We do not take the lead on that but we are challenged by the Cabinet Office and the OGC. There is a sustainability of the government estate annual report where we are required to say how are we performing against central government targets in all of these areas and that is published.

Q132 Mr Clapham: So the Cabinet Office is the lead office on this, is it?
Ms Douglas: It is the OGC that normally approaches us for the SDiG report.

Q133 Chairman: That last comment is counterintuitive. If you find that is not the case please let us know. I think it emphasises the need for a Chief Construction Adviser because it is a confusing morass of government departments involved in construction issues and that answer actually surprised me.
Ms Douglas: I will check whether it is the OGC or the Cabinet Office that asks for data but I think it is the OGC.
Chairman: That demonstrates the single contact point point that Mr Oaten was making earlier.
Lembit Öpik: Do you actually think with the construction industry being as disparate and autonomous as it is that there is any realistic likelihood of the Department ever being able to influence it? Surely the only thing that government can ever really do is throw money at it?

Q134 Chairman: Which it does not do.
Mr Fraser: It is a very diverse and disparate industry, as you say, but insofar as a lot of the big construction projects are public projects, I think we can influence through that. The application of BREEAM standards is one example. Clearly there are limits but I do think there is legitimate aspiration to improve the impact that we have in the industry. On the BREEAM targets my understanding is that we are improving the percentage of projects which are meeting the excellent standard.

Q135 Lembit Öpik: That is good to hear.
Mr Fraser: I gather that 42% of projects met the required standard, I think this is in government projects last year, whereas an earlier figure was only 8%, so it is from a low base but it is a significant improvement.

Q136 Chairman: I want to ask two very quick last questions from the chair although one is more an observation. I think we have given you quite a

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grilling as it is. BERR had three PSAs, five Departmental Strategic Objectives and DIUS led on two PSAs and had six DSOs. This is quite a lot of different PSAs and DSOs to manage. Are you going to give us an assessment in the autumn of how the new Department is coping with a progress report? Are you going to restructure them to take account of the new Department?

Mr Fraser: I think this is a very important issue. On PSAs we are not actually able individually as a department to adjust those because they are agreed cross-government, but they will be reviewed in the context of the spending round, so as we go into discussions I think there is an opportunity for us to look at those. As you say, we have inherited 11 DSOs in our department. We are in the process internally of thinking through how we can streamline that. My personal view is that you cannot manage a department to 11 DSOs. You can probably manage a department to six to eight, so if we can get into that sort of ball-park that is where I would like to be. When we have taken this further forward I would be happy to discuss with you the revision of our DSOs. I think it is very important because they to me should be the motor that drives the organisation and that people associate themselves with when they think, "What is my job doing," so I think we have got to align them in a more streamlined way with the new organisation in the way you suggest.

Q137 Chairman: I see nods from my colleagues and I think we welcome that observation and we will take you up on your offer of a progress report. Do you plan to produce an autumn progress report on the issue?

Mr Fraser: Are we?

Mr Orme: Yes.

Q138 Chairman: Excellent, we look forward to seeing that. Absolutely finally from me, I made the observation about the relative pounds per page in these two document. One of the reasons is that of course one does not include the resource accounts, I now realise, and the other does. I said to you that we welcome the inclusion of resource accounts because it makes it much easier for us to do our job. I just wondered what your plans are for they combined department. Will we get resource accounts as well for the combined department and will that be do-able in time?

Mr Orme: I think it will be a challenge but it is a challenge we will take on. Bringing you everything together in one place is very good, but I think the comments you make about better explanation and more streamlining are also important. So there are steps that are going on e.g. the clear line of sight project where the direction of travel is right I think we need to get behind it and get there.

Q139 Chairman: As we have seen so often in these evidence sessions, there are often tensions between competing objectives and this is another one. Timeliness and completeness are often enemies of each other but I hope that you can reconcile them to our satisfaction when next you appear before this Committee. Unless there is anything you wanted to say—

Mr Fraser: No, thank you very much.

Chairman: There are a few issues we would have explored with you about UKAEA and other areas but we will now explore them in writing, if we may. Apart from that, we are very grateful to you. Thank you very much indeed.

Written evidence

Memorandum submitted by Department for Business, Innovation and Skills

INFORMATION REQUESTED DURING THE 13 OCTOBER 2009 ORAL EVIDENCE SESSION ON THE BERR DEPARTMENTAL ANNUAL REPORT 2008–09

BIS People Survey

Our departmental staff survey, the BIS People Survey, is still underway. We will have the headline results in December and my office will pass these to your Committee clerk. This is part of a wider survey, covering all Departments for the first time this year.

Stakeholder Engagement

Overall, the December 2008 survey of customers of the BERR Business Relations and Energy Group teams was a positive result for BERR during its first year, in a challenging economic climate. *"Knowledge and understanding of the Department"* was over 80% and those who thought favourably of the Department had increased to 77%.

The economic climate probably explained the slight decline in confidence in BERR's ability to make a positive difference for business. The Department took immediate action here, introducing a number of measures under *Real Help for Business* to address cash flow, credit and investment needs of SMEs, as well as providing support and advice through Business Link. BERR worked closely with key stakeholders to ensure SMEs were aware of the help available. In parallel, BERR developed longer term strategies to ensure the UK economy emerges stronger from the recession and that UK business can thrive in the upturn. The New Industry, New Jobs policy framework, published with DIUS in April, set a clear strategy for business competitiveness and growth.

Though half of the business intermediaries surveyed gave BERR a positive rating for influencing policy makers, this was identified as a key challenge for the Department. BIS works more closely than ever with HM Treasury and other Government Departments, at Cabinet, and through the National Economic Council to steer economic policy.

We continue our work to make UK regulation simpler and more proportionate. Britain continues to have the best business environment in Europe and one of the best in the world according to the World Bank. We recently announced a new package of measures cutting the costs of new laws that will benefit businesses both immediately and in the longer term. The timing of the introduction of 26 planned regulations has been delayed to April 2011, deferring costs to businesses of £3.5 billion. The Government has also set a new target to cut the ongoing costs of regulation by a further £6.5 billion in total by 2015, meaning that UK business will benefit from around a £10 billion cut in ongoing costs by 2015.

More than three quarters of those surveyed said our communications were effective. We continue in our efforts to communicate and engage better with organisations and individuals who have an interest in our work.

LSC Transition Arrangements

I have consulted colleagues in the Department for Children, Schools and Families (DCSF) (who lead on the transfer of responsibilities to local authorities), regarding your request for a note on the information local authorities are receiving about their new responsibilities in commissioning 16–19 learning provision from 2010.

Since January 2009, a DCSF funded capacity building programme has been in place to ensure that local authorities are ready to take up their new tasks. It is being overseen by *React* (Raising Expectations Action), a local authority-led team sponsored by the Local Government Association (LGA), and provides a package of information and support for local authorities. From November 2009, *React* will run a series of training and development events to help ensure that local authorities are ready to take on their new functions and duties. *React* is also preparing a High Level Guide for local authorities and this will be published and refined in advance of the transfer, setting out how key policies will operate from April 2010.

DCSF intends to publish for consultation a draft National Commissioning Framework, developed in partnership with *React*, LGA and other delivery partners. As well as setting out guidance for the commissioning of learning provision for the 2011–12 academic year, it will include details of the key processes for planning and funding provision from 2010.

Since the beginning of this month, local authorities have been shadowing their LSC counterparts as the work begins on the commissioning for 2010–11. This is helping local authorities understand the process and build relationships with colleges and learning providers.

Solutions for Business

You requested further information on progress towards meeting the Budget 2006 target to reduce the number of publicly-funded business support schemes from over 3,000 to less than 100 by March 2010. In March 2009 the Government announced Solutions for Business (SfB), a streamlined, easy to access package of just 29 business support products. Significant progress has been made nationally and regionally in aligning business support to the Solutions for Business portfolio, although at this stage there is still more to do locally. Over the next six months, we will focus on encouraging products offered at a local level to align with SfB by March 2010.

We have made a commitment to publish a progress report alongside PBR 2009. This report will contain details on progress made to date and our strategy for maintaining and building on the simplified framework during the remainder of the transition year until March 2010, and beyond.

Factoring

I promised to look into the question of Factoring and Invoice Finance (IF), which includes both Factoring and Discounting. In Factoring it is the lender, rather than the SME, who collects payments and pursues late payments. With invoice discounting the SME would continue to manage its own sales ledger and debt collection. Invoice Finance, including Factoring as an option, is one of a suite of financial products available to Small and Medium Enterprises (SMEs).

Our evidence does not suggest that businesses are being pushed towards Invoice Finance facilities. Data from the Asset Based Finance Association suggests that around 45,000 businesses use factoring or invoice discounting, and recent surveys suggest that the Invoice Finance market accounts for around 4% of the overall lending market to SMEs. It is worth noting that latest ABFA figures, up to Q2 2009, show that the value of sales covered by factoring and invoice discounting agreements have fallen by 12% over the last year. There is a clear link between take up of Invoice Finance and sales, so when there is a pick up in economic activity, an increase in Invoice Finance take up is to be expected.

From 30 September 2009 the Enterprise Finance Guarantee was extended to provide an Invoice Finance Guarantee "top-up" facility. This was introduced in response to feedback from lenders, businesses and business representative organisations. The "top up" provides a 75% guarantee on a defined percentage of an IF facility over and above the IF provider's normal payment level. This leverages additional working capital for viable SMEs who are unable to provide sufficient security to lenders. The aim is to ensure that the Enterprise Finance Guarantee can be applied as flexibly as possible across a range of finance products, enabling those who can to benefit from Invoice Finance.

BREEAM Standards

I can confirm that the Office for Government Commerce is the lead department for BREEAM standards across Whitehall.

UKAEA Pension Schemes

Of the 2008–09 Resource Accounts laid before the House, the UKAEA Pension Scheme Accounts were the only pension scheme accounts to be qualified. This was due to a breach of the Estimate against the Request for Resources. This incurred an Excess Vote, requiring retrospective approval from Parliament for use of the excess resource. The Excess Votes had no impact on pension payments, nor did they impact on the audit opinion on the BERR Annual Report and Accounts.

Qualification of Resource Accounts for which I am Accounting Officer is a matter I take very seriously. I have taken a personal interest in ensuring steps are taken to address this issue. This is particularly unacceptable given that this is the second excess vote in two years.

We have appointed a lead officer to oversee the relationships required to manage the Schemes. We have also established regular quarterly meetings with all parties involved: the UK Atomic Energy Authority, Government Actuary, UKAEA pensions administrators, Shareholder Executive, and those responsible for Estimates and Accounts within BIS. These meetings are designed to improve the understanding of all financial aspects of the Schemes, and are held in good time to ensure that the Main and Supplementary Estimates represent the best available information. This forum includes "teach ins" from experts within the group, which have a particular emphasis on the financial impact of changes to scheme membership and terms. Two meetings have been held to date, with another scheduled to take place in December 2009.

In addition, the Government Actuary has agreed to undertake a full review of the accruing liabilities in time to reflect changes in the Estimates. The BIS Audit and Risk Committee is also playing an active part in ensuring that all possible steps are being taken to mitigate the risk of another Excess Vote. An internal audit review will be conducted during 2009–10, in order to provide additional assurance.

Following the creation of DECC in October 2008, the UKAEA pension schemes have remained under the sponsorship of BIS because, at the time, a process was under way to sell UKAEA's commercial nuclear decommissioning business. Given that DECC did not have a direct policy interest in this business, it was felt that for administrative purposes it would be more efficient for UKAEA to remain under the sponsorship of BIS, where the Shareholder Executive was handling the sale.

Royal Mail

Regarding valuation of the Government's shares in Royal Mail Holdings plc, there are two methods of valuing the shareholding, and these are not comparable: valuation on the balance sheet and a commercial valuation. The Government's shares are valued on the Department's balance sheet at historical cost less any provision for impairment. This is the conventional approach to long term investments such as the Royal Mail shareholding, and reflects the approach of the Government's Financial Reporting Manual which follows UK Generally Accepted Accounting Practice (UK GAAP).

The value of any sale of shares in Royal Mail Holdings plc or any of its subsidiaries would depend on market conditions and the competitive nature of the tendering process. The independent valuations for Royal Mail Group Limited are commercially sensitive and cannot be disclosed. These were prepared on the assumption that the Hooper recommendations on pensions and regulation were implemented, and that the Post Office remained owned in its entirety by the Crown.

Prolonged strike action had the potential to impact the valuation of Royal Mail Holdings plc if it served to drive away further custom from an already declining market. Less mail means less revenue for the company. We will learn in the run up to Christmas the effect that the latest strike has had on custom. The strike was in reaction to modernisation to make the Royal Mail more efficient and flexible, so that it can better cope with the decline of traditional mail and make the most of the opportunities offered by internet fulfilment. The priority for the company is to build on the recent agreement with the CWU and to use the following period of calm to focus on agreeing the next steps for modernising the business.

Regarding the deficit in the Royal Mail Pension Plan, the Government has made it clear that Government help to address the deficit can only be given in the context of urgently needed transformation of the business. It has also made clear that it could not justify proposals on pensions in isolation.

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