



House of Commons
Committee of Public Accounts

**Department for
Business, Innovation
and Skills: reducing
bureaucracy in further
education in England**

**Seventy-sixth Report of Session
2010–12**

*Report, together with formal minutes, oral and
written evidence*

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Committee of Public Accounts

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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 www.parliament.uk/pac. A list of Reports of the Committee in the present Parliament is at the back of this volume. Additional written evidence may be published on the internet only.

Committee staff

The current staff of the Committee is Philip Aylett (Clerk), Lori Verwaerde (Senior Committee Assistant), Ian Blair and Michelle Garratty (Committee Assistants) and Alex Paterson (Media Officer).

Contacts

All correspondence should be addressed to the Clerk, Committee of Public Accounts, House of Commons, 7 Millbank, London SW1P 3JA. The telephone number for general enquiries is 020 7219 5708; the Committee's email address is pubaccom@parliament

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Summary

Further education is delivered by over 1,000 different providers, mainly further education colleges or independent training businesses. They offer a wide range of education and training, which is funded through different government bodies. The Department for Business, Innovation and Skills (the Department) and the Skills Funding Agency (the Agency) provide funding for further education students aged 19-plus. The Department for Education and the Young People's Learning Agency fund further education for 16-to-18-year-olds. These two departments provided £7.7 billion in funding to the sector during the 2010/11 academic year. Further education providers also deliver training for people in prisons, unemployed people and some offer higher education as well.

The various government bodies that interact with the sector have different funding, qualification and assurance systems. Differences in the information required and collected create an unnecessary burden for training providers and divert money away from learners. To provide value for money, the systems need to be appropriate, efficient, avoid unnecessary duplication, and balance the protections they provide for public money with the costs of the bureaucracy they impose.

No one body is currently accountable for reducing bureaucracy in the further education sector. Instead, the two Departments and the two funding agencies maintain separate responsibilities based on their funding streams. The Department has a stated policy objective of reducing bureaucracy imposed on further education providers, and the agencies work to co-operate together, but despite this, the Department's Accounting Officer would not accept overall responsibility for bringing together efforts to reduce bureaucracy in the sector. This failure leads to a poor value and uncoordinated approach, particularly in the case of data requirements.

Both the Department and the Department for Education, and their funding agencies, have launched separate initiatives designed to simplify the requirements they place on providers. However, the Department does not manage the simplification as a programme with a clear and consistent goal. While the Department has required the Agency to reduce its own administrative costs by 33%, neither the Department nor the Agency has a rational view on the amount by which they would like to reduce bureaucracy in providers. Current attempts to quantify the burden on colleges will not provide a complete enough picture and the Department and the Agency do not accept that measurement of progress is necessary.

The Skills Funding Agency and the Young People's Learning Agency are confident that the changes they intend to make in simplifying their funding systems will not put public money at greater risk. But the Department and the Agencies need to demonstrate that, in devolving control and simplifying procedures, their safeguards over the proper use of public money have not been weakened.

On the basis of a Report by the Comptroller and Auditor General,¹ we took evidence from the Department for Business, Innovation and Skills, the Skills Funding Agency and the

1 C&AG's Report, *Reducing bureaucracy in further education in England*, Session 2010-12, HC 1590

Young People's Learning Agency on their approach to reducing bureaucracy in further education.

Conclusions and recommendations

1. There is no clear accountability for reducing bureaucracy in the further education sector. Each funding body is separately accountable for the funds it provides for further education, and no one has ultimate responsibility for bringing together efforts to reduce bureaucracy in the sector as a whole. We were concerned that the Department's Accounting Officer limited his responsibility to post-19 education funding and the burdens this imposed, without accepting wider ownership for the sector. It is important that there is coherent delivery of policies across organisational boundaries and clear accountability for achieving this. Many of the issues highlighted in this report, such as those surrounding conflicting information requirements and poor coordination, stem from this lack of clear accountability. The Department must set out, in its accountability statement, its responsibility for bringing together the drive to reduce bureaucracy across the whole further education sector.

2. Data, funding and assurance requirements on the further education sector could still be better coordinated. The Department, the Department for Education, and the two funding Agencies are all working to make their systems simpler for colleges to administer, but this work is not adequately co-ordinated. Other bodies that work with the sector, which include the Office of Qualifications and Examinations Regulation (Ofqual), the Higher Education Funding Council for England (HEFCE), the Department for Work and Pensions and the Home Office, all impose separate, and sometimes conflicting, requirements on providers. The separate efforts so far to reduce bureaucracy are welcome but the sector still finds the burden excessive. The Department should establish a cross-government approach to harmonize the funding, assurance and information requirements placed on providers into a single system which is capable of meeting the needs of all public sector bodies that interact with providers. Further education representatives and providers, should have a leading role in the design and implementation of changes.

3. Different initiatives to reduce bureaucracy are not managed as a coherent programme with a clear goal. The sector finds the constant change to funding, qualification and assurance systems increases bureaucracy. The Department does not assess adequately the impact of changes on providers. It has not set a clear goal by which success on reducing bureaucracy can be measured and does not accept that measurement is necessary. Given its overarching responsibility for the sector, the Department should make clear the scale of improvement being sought and establish a clear measurement framework so that progress can be assessed.

4. Greater freedoms for further education providers must not put public funds at risk. The Department has three strands of work in place to deliver freedoms for the sector: reducing the number of bodies that interact with the sector; simplifying systems such as data and audit; and removing certain legal duties on colleges. The Department and the Agency believe additional freedoms will not affect the level of financial impropriety in the sector and put public funds at risk. The Department should set out, as part of its accountability statement, how safeguards on the use of public funds will be maintained alongside the changes they are implementing.

1 Accountability for reducing bureaucracy

1. Further education is delivered by over 1,000 different providers, mainly further education colleges or independent training businesses.² Further education providers also deliver training for people in prison, unemployed people and in some cases offer higher education courses as well.³ The Department for Business, Innovation and Skills (the Department) is seeking greater devolution of central control and a reduction in the bureaucracy imposed on further education providers in England. This is part of its wider reform of the sector to give providers greater freedoms.⁴

2. The Department's Business Plan contains an objective to free the sector from unnecessary controls and regulation attached to further education funding, auditing and monitoring.⁵ However, the Accounting Officer for the Department did not accept it was wholly responsible, instead limiting its accountability to the funding of post-19 education only.⁶ We were frustrated that the Department maintains the policy lead for further education yet did not accept overarching responsibility for bringing together efforts to reduce bureaucracy.⁷

3. All the witnesses agreed that more work was needed across government to minimise burdens.⁸ The Department told us that it seeks to work with other government bodies to deliver the range of different policies in the further education sector in the most effective way.⁹ The Skills Funding Agency told us that it was its job, together with the Young People's Learning Agency, to manage the risk that policy differences between the Departments might lead to unnecessary and undue complication for the sector.¹⁰ However, the representatives from the sector pointed out that effective reduction in bureaucracy needed better alignment of funding, qualification and assurance systems between the Department, Department for Education, the funding agencies, Department for Work and Pensions, HEFCE and the Home Office.¹¹

2 C&AG's Report, para 1.4 and Figure 1

3 C&AG's Report, Figure 3

4 Q111

5 C&AG's Report, para 1.1 and Q130

6 Qq 41-52, 161

7 Qq 46-50, 57

8 Q58

9 Qq 48-50, 55

10 Qq 68-71

11 Qq 2-3

2 Reducing bureaucracy

4. Provider representatives reported that the coordination of the funding, qualification and data requirements imposed by the different government bodies was poor. For example colleges were often caught between four different funding approaches – for pre-16 year olds, 16-18 year olds, 19-plus and higher education. Each approach had its own rules on eligibility, data requirements and audit.¹² Whilst providers recognised the value of most of the data gathered, different government bodies would not use or collect it in the same way, or require the same level of precision.¹³

5. In addition, further education providers reported that it is costly to deal with constant changes to funding, data and auditing rules imposed by the government bodies that interact with the sector. The providers told us that each change on its own may seem reasonable and well-intentioned but the cumulative impact could be significant.¹⁴ Providers told us they were pleased that, for post-19 training, they had had the same funding system for two consecutive academic years (2010-11 and 2011-12).¹⁵ But it was once again changing and the Department could not say what the cost of this change would be for the sector.¹⁶

6. The Department and the funding Agencies told us they have been successful at reducing bureaucracy and we heard that the sector has welcomed the progress that had been made.¹⁷ The Department and the Skills Funding Agency have three strands of work in place to deliver freedoms for the sector: reducing the number of bodies that interact with the sector; simplifying data systems and audit requirements; and removing certain legal duties on colleges. The Department for Education and the Young People's Learning Agency also has its own separate set of measures to reduce bureaucracy on further education providers.¹⁸

7. Whilst there is a clear and welcome ambition to reduce the burden on providers the Department has yet to define a clear aspiration for what the new system for funding, qualification and data will cost to run.¹⁹ The Skills Funding Agency has been set a clear target to reduce its administration spend by 33% over the next three years but did not accept the need to set a target like this for its burden on the sector or even to measure whether bureaucracy had been reduced.²⁰

8. The Department and the Agency do not, at the moment, have an understanding of the cost incurred by colleges of dealing with central government bureaucracy and no measurement by which success could be judged. This limits the Department's ability to

12 Q8

13 Q16

14 Q2

15 Q36

16 Qq 36, 117-121

17 Qq 21, 137

18 C&AG's Report, Figure 9

19 Qq 154-159

20 Qq 108, 111-115, 156

manage the burden on the sector and to judge whether the changes being made are worthwhile.²¹ The work being undertaken by the Agency to understand the cost of bureaucracy was welcomed by providers, but they also stated concerns that it will not include the costs of bureaucracy imposed by other bodies such as the Young People's Learning Agency, HEFCE and the Department for Work and Pensions.²² The Information Authority, which sets data standards and governs data collection for the sector,²³ is to reassess the costs of data collection to providers in 2011-12 and again in 2014-15 so this can be compared to its earlier assessment in 2008 which looked just at colleges.²⁴

9. We have reported several times in the past on the need to improve financial management in the sector and emphasised the need for strong accountability.²⁵ The Agencies told us that they recognised that increased freedom and flexibility for further education providers should not lead to an increased risk of fraud or financial impropriety in the sector. Whilst the Skills Funding Agency assured us that its audit checks will not be reduced in its changes to the funding systems, it did recognise that an outcomes-based system could lead to a process whereby funding is provided for an outcome even if the learner never attended any classes. The Agency told us that it would not be reducing the level of assurance it received on the use of public funds and that it was reforming the sector in a structured manner.²⁶

10. The further education representatives told us that they were not sufficiently involved in the design and implementation of changes to the sector.²⁷ The higher education sector provides an example of an approach to greater sector involvement in reducing bureaucracy. In that case, a better regulation group was created, run and owned by the higher education institutions themselves.²⁸

21 Qq 127-130

22 Qq 12, 13

23 C&AG's Report, Figure 4

24 Q160

25 Committee of Public Accounts Reports, *Train to Gain: Developing the skills of the workforce*, 6th Report, 2009-10 and *Individual Learning Accounts*, 10th Report, 2002-03

26 Qq 78-103

27 Q8

28 Qq 162-163

Formal Minutes

Monday 12 March 2012

Rt Hon Margaret Hodge, in the Chair

Mr Richard Bacon
Jackie Doyle-Price
Matthew Hancock
Meg Hiller
Fiona Mactaggart

Austin Mitchell
Nick Smith
Ian Swales
James Wharton

Draft Report (*Department for Business, Innovation and Skills: reducing bureaucracy in further education in England*) proposed by the Chair, brought up and read.

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

Paragraphs 1 to 10 read and agreed to.

Conclusions and recommendations 1 to 4 read and agreed to.

Summary read and agreed to.

Resolved, That the Report be the Seventy-sixth Report of the Committee to the House.

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

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

Written evidence was ordered to be reported to the House for placing in the Library and Parliamentary Archives.

[Adjourned till Wednesday 14 March at 3.00pm]

Witnesses

Monday 30 January 2012

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Martin Doel, Chief Executive, Association of Colleges, **Chris Lang**, Vice Principal, Cambridge Regional College, and **Ian Pryce**, Principal and Chief Executive, Bedford College

Ev 1

Martin Donnelly CMG, Permanent Secretary, Department for Business, Innovation and Skills, **Peter Lauener**, Chief Executive, Young People's Learning Agency, and **Geoff Russell**, Chief Executive, Skills Funding Agency

Ev 8

List of printed written evidence

1 Department for Business, Innovation and Skills

Ev 24

List of Reports from the Committee during the current Parliament

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

Session 2010–12

First Report	Support to incapacity benefits claimants through Pathways to Work	HC 404
Second Report	Delivering Multi-Role Tanker Aircraft Capability	HC 425
Third Report	Tackling inequalities in life expectancy in areas with the worst health and deprivation	HC 470
Fourth Report	Progress with VFM savings and lessons for cost reduction programmes	HC 440
Fifth Report	Increasing Passenger Rail Capacity	HC 471
Sixth Report	Cafcass's response to increased demand for its services	HC 439
Seventh Report	Funding the development of renewable energy technologies	HC 538
Eighth Report	Customer First Programme: Delivery of Student Finance	HC 424
Ninth Report	Financing PFI projects in the credit crisis and the Treasury's response	HC 553
Tenth Report	Managing the defence budget and estate	HC 503
Eleventh Report	Community Care Grant	HC 573
Twelfth Report	Central government's use of consultants and interims	HC 610
Thirteenth Report	Department for International Development's bilateral support to primary education	HC 594
Fourteenth Report	PFI in Housing and Hospitals	HC 631
Fifteenth Report	Educating the next generation of scientists	HC 632
Sixteenth Report	Ministry of Justice Financial Management	HC 574
Seventeenth Report	The Academies Programme	HC 552
Eighteenth Report	HM Revenue and Customs' 2009-10 Accounts	HC 502
Nineteenth Report	M25 Private Finance Contract	HC 651
Twentieth Report	Ofcom: the effectiveness of converged regulation	HC 688
Twenty-First Report	The youth justice system in England and Wales: reducing offending by young people	HC 721
Twenty-second Report	Excess Votes 2009-10	HC 801
Twenty-third Report	The Major Projects Report 2010	HC 687

Twenty-fourth Report	Delivering the Cancer Reform Strategy	HC 667
Twenty-fifth Report	Reducing errors in the benefit system	HC 668
Twenty-sixth Report	Management of NHS hospital productivity	HC 741
Twenty-seventh Report	HM Revenue and Customs: Managing civil tax investigations	HC 765
Twenty-eighth Report	Accountability for Public Money	HC 740
Twenty-ninth Report	The BBC's management of its Digital Media Initiative	HC 808
Thirtieth Report	Management of the Typhoon project	HC 860
Thirty-first Report	HM Treasury: The Asset Protection Scheme	HC 785
Thirty-second Report	Maintaining financial stability of UK banks: update on the support schemes	HC 973
Thirty-third Report	National Health Service Landscape Review	HC 764
Thirty-fourth Report	Immigration: the Points Based System – Work Routes	HC 913
Thirty-fifth Report	The procurement of consumables by National Health Service acute and Foundation Trusts	HC 875
Thirty-seventh Report	Departmental Business Planning	HC 650
Thirty-eighth Report	The impact of the 2007-08 changes to public service pensions	HC 833
Thirty-ninth Report	Department for Transport: The InterCity East Coast Passenger Rail Franchise	HC 1035
Fortieth Report	Information and Communications Technology in government	HC 1050
Forty-first Report	Office of Rail Regulation: Regulating Network Rail's efficiency	HC 1036
Forty-second Report	Getting value for money from the education of 16- to 18-year olds	HC 1116
Forty-third Report	The use of information to manage the defence logistics supply chain	HC 1202
Forty-fourth Report	Lessons from PFI and other projects	HC 1201
Forty-fifth Report	The National Programme for IT in the NHS: an update on the delivery of detailed care records	HC 1070
Forty-sixth report	Transforming NHS ambulance services	HC 1353
Forty-seventh Report	Reducing costs in the Department for Work and pensions	HC 1351
Forty-eighth Report	Spending reduction in the Foreign and Commonwealth Office	HC 1284
Forty-ninth Report	The Efficiency and Reform Group's role in improving public sector value for money	HC 1352
Fiftieth Report	The failure of the FiReControl project	HC 1397

Fifty-first Report	Independent Parliamentary Standards Authority	HC 1426
Fifty-second Report	DfID Financial Management	HC 1398
Fifty-third Report	Managing high value capital equipment	HC 1469
Fifty-fourth Report	Protecting Consumers – The system for enforcing consumer law	HC 1468
Fifty-fifth Report	Formula funding of local public services	HC 1502
Fifty-sixth Report	Providing the UK's Carrier Strike Capability	HC 1427
Fifty-seventh Report	Oversight of user choice and provider competition in care markets	HC 1530
Fifty-eighth Report	HM Revenue and Customs: PAYE, tax credit debt and cost reduction	HC 1565
Fifty-ninth Report	The cost-effective delivery of an armoured vehicle capability	HC 1444
Sixtieth Report	Achievement of foundation trust status by NHS hospital trusts	HC 1566
Sixty-first Report	HM Revenue and Customs 2010-11 Accounts: tax disputes	HC 1531
Sixty-second Report	Means Testing	HC 1627
Sixty-third Report	Preparations for the roll-out of smart meters	HC 1617
Sixty-fourth Report	Flood Risk Management	HC 1659
Sixty-fifth Report	DfID: Transferring cash and assets to the poor	HC 1695
Sixty-sixth Report	Excess Votes 2010-11	HC 1796
Sixty-seventh Report	Whole of Government Accounts 2009-10	HC 1696
Sixty-eighth Report	Ministry of Defence: The Major Projects Report 2011	HC 1678
Sixty-ninth Report	Rural payments Agency – follow up of previous PAC recommendations	HC 1616
Seventieth Report	Oversight of special education for young people aged 16-25	HC 1636
Seventy-first Report	Reducing costs in the Department for Transport	HC 1760
Seventy-second Report	Services for people with neurological conditions	HC 1759
Seventy-third Report	The BBC's efficiency programme	HC 1658
Seventy-fourth Report	Preparations for the London 2012 Olympic and Paralympic Games	HC 1716
Seventy-fifth Report	Ministry of Justice Financial Management	HC 1778
Seventy-sixth Report	Department for Business, Innovation and Skills: reducing bureaucracy in further education in England	HC 1803

Oral evidence

Taken before the Committee of Public Accounts on Monday 30 January 2012

Members present:

Margaret Hodge (Chair)

Mr Richard Bacon
Matthew Hancock
Chris Heaton-Harris
Meg Hillier

Fiona Mactaggart
Austin Mitchell
Nick Smith
Ian Swales

Amayas Morse, Comptroller and Auditor General, **Gabrielle Cohen**, Assistant Auditor General, and **Chris Shapcott**, Director, National Audit Office and **Marius Gallaher**, Alternate Treasury Officer of Accounts were in attendance.

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL

Reducing Bureaucracy in Further Education in England

Examination of Witnesses

Witnesses: **Martin Doel**, Chief Executive, Association of Colleges, **Chris Lang**, Vice Principal, Cambridge Regional College, and **Ian Pryce**, Principal and Chief Executive, Bedford College, gave evidence.

Q1 Chair: Welcome. I apologise for the slight delay in starting. We had to clear a lot of Reports and we had a bit of a backlog, so apologies for that. You have probably read a bit about how we have managed the first session in previous hearings. We are very grateful to the three of you for coming to what will be a short introductory session. We hope that you can set the scene for the sort of issues that we should cover when we come to the main accountability hearing with the accounting officers. This is your opportunity to draw the Committee's attention to the issues that are important to you on the ground, so that instead of being a dry hearing, it comes alive from your evidence and experience. I leave it open to you to say what you like. Martin, would you, as the representative of the Association of Colleges, like to start? I will then turn to the two college principals. What are the big grouses that you get around bureaucracy from your members?

Martin Doel: Thank you, Chair. I am very pleased to be here and thank you for the invitation. We have taken account of the Report, which was an interesting stocktake and pause for thought. Pause for thought is important in relation to further education. As most of the Committee will be aware, colleges serve a huge range of agencies and provide a wide range of courses—

Q2 Chair: Martin, I apologise for interrupting you at the beginning. We try to keep this session to about half an hour, so it is really important that you assume that we know something. Apologies for doing that, but focus on what you think are the key areas of questioning that we ought to pursue—the real things that really hassle your members.

Martin Doel: Further education is complicated. It has to operate with a large range of different agencies, all of which have slightly differing forms of

accountability and impose different checks and balances on colleges. The degree of complexity encountered at the point of delivery is substantial because of those overlapping forms of reporting responsibilities. Although the Report has identified in particular the role of the SFA and BIS in this regard, I think it gives insufficient attention to the interaction between the various types of accountability that colleges have, not just to the YPLA and DFE, but to the Department for Work and Pensions, higher education and, increasingly, to the Home Office for immigration and the full range of people with whom it interacts. Co-ordinating and taking account of the regulatory burden that applies to colleges is a really live challenge.

The second thing that I would accept is in the Report, but not with sufficient weight, is the impact of this sector in particular. I would not say that it is a political football, but, because it is so responsive and so important at a time of recession and building towards recovery and dealing with the range of industries and customers that it does, it is subject to a range of political initiatives from time to time that do not take account of the extra regulatory or administrative burden that they bring with them. They are all, most often, well intentioned and valuable in themselves. For instance, the employer ownership of skills project, which was announced before Christmas to give employers more ownership of skills, is in itself a potentially worthwhile proposal, but the light-touch administrative burden associated with that is possibly a parallel system to that which already applies in colleges. In itself, it might be light touch, but it adds incrementally to the administrative and bureaucratic burden that colleges experience.

It is complicated stuff. There are lots of different agencies, and remaining tied up together and seeing

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BIS, Young Learning Agency and Skills Funding Agency

the impact at the point of delivery is important and always challenging. New initiatives are coming along, so as soon as you hack down one field of bureaucracy, another grows in front of you. Constantly having to attend to that is a really challenging task for the colleges. Then there are some specifics that I might come to later, if that would be helpful, but I am sure that my colleagues will wish to have their say.

Q3 Chair: The figure that interested me most was in figure 8 on page 25 of the Report. I agree that it took a snapshot of a tiny bit of the picture, but if I am reading it correctly, it shows that £1 in every £5 in the 12 colleges that they visited goes into admin, of which this is a bit, which is one heck of a lot. Do you want to comment on that? I accept the complexity and the fact that you have lots of different students, qualification bodies and funding agencies, but what would you like to see? What do you think is the biggest reason why it is such a lot of money?

Martin Doel: I would say the inevitable complexity, which is where I started. The complexity generates a range of accountabilities that is more complex and wider than in a university, a school or an independent training provider. There is an inevitable burden to having that range of lines of activity.

As you mentioned, I also see the qualifications, and the organisation in having 170 different awarding bodies with different flows of information to justify to them how colleges are doing, and the range of different agencies that colleges have to correspond with, to say what results they are achieving.

In that system, what will be the lubrication to reduce that burden, which I absolutely agree is too great? One of the key ways is the more economic and efficient transfer of information between the various partners, in that you collect information once and use it for many purposes rather than collecting information many times and using it for different purposes all the time. One of the coalescing things around that, which is about discipline in the system, would be the unique learner number and the unique pupil number just tracking the student and collecting information that the student wants.

Q4 Chair: Why has that not worked? According to the Report, it clearly has not worked.

Martin Doel: I came to the sector three years ago and I think there was a little spasm, when people had a go at trying to sort it out and disciplining the system to use one identifier. The world moves on, other initiatives and other imperatives come up, and the system is just not disciplined enough to do it.

Q5 Chair: Chris, is the college you run a general FE college?

Chris Lang: It is very much so, Chair, yes. Just on Martin's last point, I have always had a view on the unique learner number. I never understood why it cannot just be that the national insurance number is issued earlier. Why can't you issue the NI number at the age of 11 and track it through? I ask that because we have so many interactions with other agencies, such as DWP. We have lots of issues where we have

to track benefits etc. to establish students' eligibility for our courses, and we do not track via the NI number. Our different sectors use different reference numbers.

Q6 Chair: But why don't you use it? Okay, there is one argument about why it cannot be the NI number; I remember it being a complicated argument but I cannot remember what it was. But why don't you use it? Even if it's another number, why the hell not? If you all used it, you would cut out a bit of this rubbish of having different people—

Ian Pryce: We find we do not need to use it, because we can get the information very quickly from asking the students. So we see the unique learner number as a big burden, actually.

Q7 Chair: You see it as a burden?

Ian Pryce: We send off to get the numbers; we never use them. About 50% will come back, and we will need to submit them again; if students move from one address to another, it can't keep tabs on that, so they get another number. In terms of the actual business of the college, we don't find a use for it—certainly not at the moment.

Martin Doel: I would never question one of my members' colleges who pay my wages, but I would say that it is perhaps because there is not enough trust in the system at present. If it was made to work, and you could rely on that number, there would not be a need to assure yourself that it was accurate. One way or the other—either take it away entirely, or make it work, so that you don't have to collect it for no particular purpose, because not everyone else is using it. For the awarding bodies, which are transferring information between colleges and each of the awarding bodies, not using the unique learner number seems a missed opportunity.

Q8 Chair: Chris, what do you want to add to this morass?

Chris Lang: Following what Martin said about complexity, one way that the complexity emerges is the multiple funding streams and multiple funding bodies we have. Obviously, we do pre-16 education, so we are involved in schools funding; we have our own post-16 funding, but that is split between the YPLA and the Skills Funding Agency, so we already have 16 to 18 and 19-plus funding masters; and of course most colleges do a lot of HE work, so we have HEFCE funding guidance as well. So, by definition, we are caught by the four major education funding bodies and funding routes within this country. That is part of the complexity of our sector. All of them come with different detailed rules on funding, and different audit and different data requirements.

We hope that the consultations that the Skills Funding Agency and the YPLA are holding around funding methodology changes for 2013–14 will have some beneficial impact on reducing bureaucracy. I think that if those changes are done well, they could do that. But we would welcome quite a lot of sector involvement, because we have been through funding and funding methodology changes that have not reduced the

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BIS, Young Learning Agency and Skills Funding Agency**

burden of bureaucracy. They may have changed the way that funding flows, but they have not reduced the data administrative burden on the sector.

Q9 Chair: Are you talking to the YPLA, the Skills Funding Agency or the Department for Business, Innovation and Skills in the same meeting?

Chris Lang: Yes, occasionally. That is something that we are very keen on; we do see the effort to join up from the agencies. But it is about spending enough time with people who really deal with this on the ground, and understanding how the methodology would have to be put together to reduce those data and bureaucracy issues, because it is not straightforward. You get into college register systems; you get into college enrolment processes; you get into college additional learning support mechanisms; you get into college progression routes. There are all sorts of data we use for different purposes that you really need to understand to understand what the implication would be of changing the funding methodology. That takes practitioners. It is not something that people from the agencies can easily do.

Q10 Chair: Is it doable?

Chris Lang: Yes, it is doable. But it is about allowing enough time to do that detailed, bottom-up review of how to put the methodology together, rather than the tendency for it to come top-down.

Meg Hillier: One of the things I see with my own community college—Hackney community college—is that very often it cannot set the budget late. I know that happens in other parts of the public sector, but, specifically, with reference to further education colleges, that can sometimes be for good reasons. We recently campaigned on the inactive benefits, active benefits issue around ESOL, for example. That seemed to add a lot of effort for my college. Is that common across the board? Do you have any comments about how that does or does not work and how regularly that happens?

Chris Lang: One thing that has definitely improved is that we are regularly getting allocations and contracts to us by the end of March. That is a big improvement because it definitely was not always the case. We used to sit there and get our allocations and our contracts in July, August or September. Our new year starts on 1 August and there have been occasions when we were getting contracts in August and September. We were passed that point in the budget cycle with our corporation when we were into the trading year. Now, we get our allocations regularly by the end of March. That time coming forward is a huge advantage to sensible planning and budgeting. The problem with it is the complexity underneath it now; it is the complexity of the eligibility rules or the entitlements that come with it that makes it complex.

Q11 Meg Hillier: Is there any way you think that could be improved? We were all keen to see a change—I certainly was as a local MP—in the eligibility rules, and the Minister did listen, actually, so it was helpful, but it did then cause you problems.

Do you think those problems could have been foreseen? What discussions was AOC having?

Martin Doel: We had earlier consultation about that change and disallowing those on inactive benefits from accessing free training, or courses to be eligible for fees remission. If that had been consulted about earlier, we would not have had to make the late change. In the end, the Minister did listen and that was worth while, but it did introduce some later complexity to the situation.

Q12 Meg Hillier: So is it Government processes doing everything a bit late?

Martin Doel: I appreciate, particularly considering the situation we are in at present—this is my concern about the employer ownership programme, for instance—that the Government will want to do things in the face of the economic situation that we are in, and we would wish them to do so. Therefore, wanting to do things quickly is a political imperative. But when you do those things quickly and the policy is not thought through in all its consequences, it is sometimes then corrected at a later stage. But the college keeps moving on and its business processes will have moved on through that year. Therefore, adjusting to the late changes becomes increasingly difficult and involves additional bureaucracy and incremental additions to what colleges are doing. To endorse Chris's view, both agencies have got much better about getting the money and the allocations out earlier. That has assisted colleges considerably over the past two years.

Meg Hillier: Page 20 talks about the whole college view project that the Skills Agency is working on. From your perspective, how is that going and is it making any positive difference to the bureaucratic burdens that you shoulder?

Martin Doel: The feedback I have had from the colleges that have been involved in the whole provider view—I have spoken to and consulted a number of them—is that it is a very positive and worthwhile way to approach it. I would not say that I am cynical but I am slightly reserved about the fact that while the YPLA are observing that work for 16 to 18, they are also carrying out their own parallel review, so it does not really look like a whole provider review to me. If it throws up things that the YPLA will take account of and HEFCE takes account of and the Department for Work and Pensions takes account of, it will have been a whole provider review. That is not to say I do not think it is immensely valuable work to be done from the bottom-up, but how it is turned into action seems to be a particularly challenging task for officials.

Q13 Meg Hillier: Just to clarify, you have one body doing the review, but you are hoping—fingers crossed—that the other agencies take on those recommendations, but there is no real guarantee of that.

Martin Doel: Correct.

Q14 Chris Heaton-Harris: This is a question for Ian and Chris. How many people do you employ to deal

with the admin associated with the different funding streams and how many students do you have?

Ian Pryce: Our total student numbers are about 16,500, about one in 10 people in Bedford. Our staff numbers are 752. On the student data and exams side, we probably have about 20 people. Most of those people will of course be collecting information that we need for the college, so in terms of the burden, from our point of view, we obviously look to see if there is data being collected that we would not use as a college. There is some of that, which is usually at the detailed level, so for example collecting information on the amount of fee that we charge every single student, which is already in the finance system; or registering as a provider, when we have been inspected four times in 15 years and everybody knows everything about our students.

Q15 Chair: May I stop you for a minute? The fees you charge, you collect anyway.

Ian Pryce: We collect the fee, but in our college, we record the fee in the finance system; to record it again in a student data system, at the individual level, can be quite tricky if you charge a group of people. So there is that side of things.

There is also data we collect for ourselves. Sometimes we end up discussing that with an agency, when maybe the agency does not need that information—

Q16 Chair: Like?

Ian Pryce: It may be individual, qualification-level data. It is interesting that when we do the return for the Higher Education Funding Council, we do not go down to the very specific qualification; we give a broad indication of the subject area, for example, rather than individual qualifications.

Another area might be precision of data. Making returns valid and credible requires a great deal of checking. Sometimes, therefore, the data are very precise, but that precision has a cost. Sometimes that could be unwound. We have that maybe with staffing data, or ethnicity data, getting to a standard where almost every student has a record. Sometimes it is that sort of work that takes up time, but most of the information we collect we would use as a college in any given event.

Q17 Chris Heaton-Harris: What I am trying to get a feel for is the extra burden—the stuff you would not want to collect. How many people are we talking about in your particular college of 16,500?

Ian Pryce: The problem is that it would not translate into individual people in that way because it is very peaky, in terms of the profile, and it probably affects effectiveness rather than efficiency. It can also affect the customer; if you have to ask the students or employers more questions, it takes up their time as well, so it has that sort of impact on our operation.

Q18 Chris Heaton-Harris: So it is a general dampening effect on the efficiency of your staff.

Ian Pryce: Yes.

Q19 Ian Swales: The answer to this may be no, but is part of the problem some sort of artificial division between academic and vocational? Do you find you have to deal with different routes and processes because of that?

Ian Pryce: Not so much that distinction, but we do with awarding bodies, for example. Most colleges, just by dint of the variety of courses we offer, could deal with 20 different awarding bodies, and they all have different systems and different approaches.

Q20 Ian Swales: Remembering that the subject of this hearing is reducing bureaucracy, I am trying to think what the priority actions might be. If each of you had only one wish, what would it be?

Ian Pryce: At the risk of upsetting Martin, I would have said not to bother with the ULN until we know it is going to work and how it will work—

Ian Swales: Don't bother with what?

Ian Pryce: The unique learner number—until we know why and how we are using it and we have made sure it works first.

Chair: That is depressing, because it was invented so many years ago.

Martin Doel: My suggestion, I think, involves how, quite sensibly—I do not doubt the will of Ministers to drive down bureaucracy, and I will say so—across BIS they operate a one in, one out rule around regulation. It would be good to see that apply in future to colleges, so that any new reporting requirements have to be matched by one that is removed in the future, and any new initiative must be correspondingly reviewed for its administrative burden, as well as its intention.

Chris Lang: My wish is probably technically challenging, but I would like to see the principles behind the funding streams, and the audit that comes with them, consistent across the education sector in the UK. I do not see why, in simple terms, that is not possible. Whether it is school provision, 16 to 18 provision in a college, apprenticeship provision, adult provision or HE provision, why cannot the basic principles be the same? Because actually they are not.

Ian Swales: That is interesting, thank you.

Q21 Austin Mitchell: It sounds a bit chaotic to me. In terms of the bodies you are dealing with, how co-ordinated are they? Could they be better co-ordinated?

Martin Doel: Sorry. Could you repeat that?

Austin Mitchell: The bodies you are dealing with: how co-ordinated is their approach? Is it all separate barrels firing at you?

Martin Doel: I think there is a genuine effort among those agencies to be co-ordinated and a consistent effort to carry on doing that. But actually the pace of business and the number of things that they are currently doing in changing policy makes it increasingly hard to stay in step with one another. So it does feel as though coherence, in many cases, is invented bottom-up rather than imposed top-down. But I have to say there is a certain sense in doing that. If colleges serve their communities and understand the needs of those communities over the years, they have become familiar with stitching together various

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funding streams to come up with a service for their communities.

In imposing a top-down, totally regimented view from all the various agencies, you prevent colleges coming up with creative solutions that meet local circumstances. I think that they make determined efforts to do so. It will be a constant challenge to see that they are, and remain, co-ordinated.

Q22 Fiona Mactaggart: I understand why colleges use so many different awarding bodies, because you have a wide range of students; someone who is learning in a prison is going to be different from someone doing their A-levels as a 14-year-old, for example, or someone doing an English language qualification. But I am interested in the different roads into each of those qualifications' reporting and administering. Would it be possible for Ofqual, for example, to say, "You have to have the same things that happen about reporting in a college"? Would that be possible or not?

Ian Pryce: It should be, because it is a fairly standard process, isn't it? We get students, guide them, teach them and they progress, and the basic awarding body process should be the same. I think there is a protocol. They are supposed to adhere to the same processes, but that often does not translate into the detailed procedures. So we do have that issue. We have a number of staff who almost have to specialise in the awarding body procedures of certain awarding bodies. If a member of staff wants to ask about another one they have to wait till the next member of staff is in.

Q23 Chris Heaton-Harris: I have two FE colleges in my constituency that target almost completely different people and they are better suited for the communities that they serve because of that. I know one of them very well and one of them not so well. My understanding is that they not so much ignore some of the reporting requirements, but they just do the limited service that the funding body, or whoever is requiring the data, requires.

If you want to have your coherence and your bottom-up strategy, surely there is a danger in simplifying what comes down from the top, isn't there?

Ian Pryce: There is. I think you are right that the starting point should always be the students and employers and what they want. We mediate between those customers and stakeholders and the Government and I think that is the right way to approach it. I think, to be fair, the funding bodies would want us to act in that way anyway.

Q24 Chris Heaton-Harris: Is there much of a problem? That is what I am trying to get at.

Martin Doel: There is a difference between brutal simplification that takes away the richness of what the college can offer its local community and sensible coherence or common reporting terms. There is a medium to be struck. If you went down to a very brutal, simple—almost the active inactive—distinction, that begins to put outside the offer some groups of students and some courses that you might wish to offer. There needs to be a richness and a

degree of complexity to give the college the range of tools it needs to do that, but I don't think that necessarily excuses you from the point of view of trying to make it the least bureaucratic possible and with the least overlapping forms of reporting possible, while still allowing the college the flexibility to do what it needs to do locally.

Ian Pryce: What we do is complex rather than complicated. I think that is the core issue. And the complication is around eligibility; that is where the rules come in and that is what you have to keep up to speed with.

Q25 Matthew Hancock: I am getting the impression from listening to you that you run businesses that serve your communities and, of course, there are lots of funding streams, as there are into many businesses, and you have people out as specialists in ensuring that that income comes in. That describes a complex organisation that serves its customers. Mr Pryce, could you comment on what Martin said earlier about the problem being less that you would want a complete, centralised system, and more about making sure that the protocols are right, so that being able to access all those different streams of financing is as effective as possible while allowing you to serve the diverse communities that you do?

Ian Pryce: I am with Martin. I think it is about local co-ordination more than anything else. Where we have issues, there is usually quite a big distinction between, say, a 40-year-old learner doing a part-time course, and a 16-year-old. Where we want to make sure the co-ordination is as good as it can be is around, say, 4,000 16 to 18-year-olds, but about 800 19 to 21-year-olds who in one sense are very similar. They are just late developers. Therefore, if they have a different funding stream and different rules, that complicates things in terms of doing our job properly. It is those sorts of issues that we need to take action on.

Q26 Chair: I am just thinking about this issue. When we had the individual learning accounts, which Richard will remember well in this Committee, we did take the foot off the accountability brake, and left fantastic flexibility in how that money was spent and who it was spent on. There was a lot of individual choice, and it went horribly wrong. So, if you have that at the one extreme, yet you want to minimise bureaucracy at the other, I am just a little bit muddled, and do not really get what could change that would make your life easier, but would still assure us that taxpayers' money was being properly used.

Martin Doel: It is always posed to me, this question about individual learner accounts, although I was not in the sector at that time, but I see it as one of the most significant challenges with the extra freedoms that colleges are receiving. The reduction in the bureaucratic requirement to report emphasises the importance of the governance of the college itself, and the effectiveness of its governing body and its corporation to identify what the community needs at the point of delivery, and to act as the conscience to the organisation. I think certainly reinforcement of governing bodies and supporting governing bodies

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more effectively to do their job is a really significant form of safeguard within the system.

Q27 Chair: It is interesting, because the reports we have had on schools suggested—someone will correct me if I am wrong—that 40% of schools have problems with their governing body. I do not know whether we have a similar analysis that the NAO has done—

Gabrielle Cohen: The absence of financial skills in the governing body was the particular point that we drew attention to.

Q28 Chair: That was on schools. Have we done any work on FE colleges?

Amyas Morse: Not on financial aspects that I am aware of.

Chair: I cannot imagine that it will be very different.

Ian Pryce: Our independence is crucial to our success. It is very important that we are independent.

Going back to your original question, Chair, sometimes when things go wrong, the danger is to leap to even more precision and even more data collection, rather than adult supervision, and just come round and send the boys round. Sometimes, that sort of more qualitative approach is needed, rather than reaching for how can we stop that happening through data.

Q29 Chair: I accept that of course that is right, and that you can overreact, but nevertheless, unless you have full confidence in the governance of the institutions—all I am saying is that the evidence we have had from the NAO so far suggests that there is still an issue around the governance of schools, which I do not imagine is very different from the governance of colleges.

Q30 Matthew Hancock: It may be very different, because colleges are generally much bigger, aren't they? You have 782 or so staff. I do not know, but nor do you, Chair.

Amyas Morse: We are not making an assumption that there is a relationship between the two, Chair. The point about schools—you remember the Report that we were doing was to say that there were new financial challenges on schools developing as a result of changes in process, and therefore a question mark about whether they had the skills on board to start a much more active form of financial management, which they are now being asked to do. They are in a change process.

Martin Doel: I might pick up that point and say that we went through our change process between 1992 and 1997, and learned many of the lessons that schools are currently learning. I will not say that all governing bodies and colleges are as strong as one another, but I think the range of skills they have will be different from in a school, and will be more mature as a consequence. There is an ever-present danger of accountability going wrong, but that level of risk has to be taken into account in the context of the maturity of the institutions and how long they have been doing this. From the Committee's previous work, the

question is to identify what it is essential for central agencies to know about the college and what the college can be trusted to govern itself.

Q31 Chair: If I go back to figure 8, which seems to be the most important—£1 in each £5 being spent on admin—is this Report targeting a key aspect of that, or are there other things that you would focus on if you had to reduce it? £1 in each £5 is clearly too much and strikes one instinctively as being too high. Is this the right thing to target?

Ian Pryce: I would say that it is one of them. We colleges have to look to ourselves. There are huge variations between colleges in the cost of administration. There is a lot that we can do in terms of process review.

Q32 Chair: This is average, isn't it?

Ian Pryce: Yes.

Q33 Chair: So some will be worse than £1 in each £5?

Martin Doel: There is some really good work on benchmarking and what are the most efficient. As the Report picks up, there is almost a lack of trust—they really mean that they do not want us to record this information. We keep it just in case, because they will come back and ask for it later to catch us out. So, actually, it is about benchmarking the information you really need to continue recording and about convincing people that, yes, we mean that we will trust you and that the accountability regimes will change. There needs to be a constancy of purpose and, as picked up by the Report, a wish not to introduce new reporting requirements on new initiatives every time that the Government want to introduce new policy that does not take account of the information that is already collected. Whether those mechanisms are fit for purpose for the initiative, as noted in the Report, is very significant. Otherwise, you will sort out what the current situation is, and in five years' time we will be back here having another conversation about the bureaucratic burden faced by FE colleges.

Q34 Chris Heaton-Harris: When I was researching this, it was fairly obvious that some colleges have fat bureaucracies and some are very slim and keen. I wonder, Martin, whether your organisation should be providing that sort of benchmarking and spread of best practice—maybe it already does, because I did not get to research your organisation as well as I would have liked. Secondly, I think this is an auditor's dream, realistically, because we are talking about data sets, aren't we? We just want the data set roughly to be the same for each of the organisations that you report to. If we can get that right, some of these issues would disappear. Is that too simple?

Martin Doel: No, I think that is entirely reasonable. We already provide some financial benchmarking services to colleges, and we have also recently started to provide some benchmarking services on the results they have achieved against like colleges. I think that is an important consideration on the administrative

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burden. A general further education college, such as Ian's, that is the only provider in a town will have a huge range of lines of activity. In London, you might have some more room for specialisation in particular colleges, because learners can move across boundaries to access the courses they want. So you might have more efficient specialised organisations in London, where students can travel more easily, but in rural areas you have to cover the full range of activity. Equally, colleges looking after people with learning difficulties or specialist needs have to correspond with a huge range of agencies such as local authorities, the health service and social services, and there will be a set of bureaucratic burdens and costs associated with that. Benchmarking against like institutions dealing with like populations is a worthwhile way to proceed, and that is what we are looking to do increasingly with the agencies through a shared services fund.

Q35 Meg Hillier: Picking up on Chris's point about the data sets, do you do any work to get IT systems and software that will be compatible across colleges? If you can help set it from your end and Government can simplify from their end, you will get close to solving some of the problems that you have outlined.

Ian Pryce: We do, and there is lots of software out there to help us do that. One of the good things, going back to one of your earlier questions, has been that the allocation mechanism has stayed the same for a second year running. Getting the allocations earlier and knowing how it was created in the first place has been really helpful. One of the things that our staff often end up doing is scanning to make sure that they have not missed the change. You can spend a lot of time thinking, "I wonder what is new in here."

Q36 Matthew Hancock: How long is it since the allocation formula has been the same for two years running?

Martin Doel: It is going to be simplified next year and changed.

Q37 Meg Hillier: Is it better to keep simplifying it, or to stick at it?

Ian Pryce: It is difficult because, to be honest, I quite like the idea of it not changing. You have to keep training staff and that is a cost.

Chris Lang: It is worth saying that the amount of time that goes on training staff, funding and funding methodology, data returns and consultancy advice is

significant. It is not unusual to have whole staff development days and to spend £10,000 doing reviews on funding and data changes because we are modelling the consequences all the time as we try to run our business.

Q38 Mr Bacon: How big a proportion of that £1 in £5—or 20%—might that be?

Chris Lang: If I averaged it in our college, it would be £20,000 or £30,000 a year. The money would probably go on training, away days or consultancy work around the funding changes and methodology. It is not an insignificant amount. We do not spend it every year, year on year. It happens because of the complexity of the funding, because it is important to us, and because of how regularly the system changes. It is not because that is what we want to do with our money.

Q39 Mr Bacon: Just one full-time post, or a couple of ancillaries?

Chris Lang: Yes. On the system side, there are technology-based solutions that could be pushed further, but they sometimes need to change the control and audit process. A classic example of that is electronic signatories and whether you need wet signatures. The sector is not that advanced and that is part of the regulation on what technology solutions will enable. Virtually every single thing we do is on paper with manual signatures. It is not because we won't deploy technology but because technology is not acceptable. That is the ultimate answer. We always seem to need paper copies as a back-up. We don't get that freedom in funding methodologies or in regulatory process.

Meg Hillier: You can get credit cards and things online using just a tick.

Q40 Chair: Any last words?

Martin Doel: The only thing Ian and I have been talking about is the £1 in £5 for administration. Although it is there as a figure and I am sure that it can be justified because the NAO has worked for a number of colleges, I would welcome the opportunity to disinter that and identify precisely what has been costed in to administration and what really counts as bureaucracy, but that is always a live question when you do these types of reviews.

Chair: It is pretty shocking. Thank you for your helpful contributions.

Examination of Witnesses

Witnesses: **Martin Donnelly CMG**, Permanent Secretary, Department for Business, Innovation and Skills, **Peter Lauener**, Chief Executive, Young People's Learning Agency, and **Geoff Russell**, Chief Executive, Skills Funding Agency, gave evidence.

Chair: Welcome, Mr Russell. I think this is your first appearance before this Select Committee.

Geoff Russell: I had to do the Train to Gain PAC with your predecessor.

Q41 Chair: Mr Donnelly, you accept that your department is responsible for these areas of the funding of administration and qualifications.

Martin Donnelly: The business department is responsible for FE policy post-19 and for ensuring that we have the systems in place to deliver the training needs of the country.

Q42 Chair: So why, throughout this Report, do we get evidence that your Skills Agency and you are busy doing one thing and Peter Lauener and the YPLA are busy doing another thing? I will take you to two examples in the Report. Page 22, paragraph 2.7 says that the funding methodologies are increasingly different. Page 22, paragraph 2.9 says that the simplification strategies between YPLA and the Skills Agency are different. What on earth is happening here when you hear a cry for help, a plea for help, from the colleges?

Martin Donnelly: First, I should underline again that we are responsible for post-19 further education.

Q43 Chair: So who is responsible for the other bit? The frustrating thing in reading this Report and going forward is the buck-passing habit that we are getting very used to in this Committee. I know it irritates some permanent secretaries for us to say that, but we are used to it. That is why I asked you the first question: are you responsible for the FE sector? When I asked the NAO why we are having you, it said that you are responsible for the policy around FE.

Martin Donnelly: For post-19—

Q44 Chair: Then why haven't we got the permanent secretary from Education? I asked that specific question before we met this afternoon. Who is responsible? Why are we seeing BIS? This is actually only 30% of the funding; more of the funding comes through Peter Lauener.

Ian Swales: Figure 3 on page 14 illustrates how it works.

Chair: Anyway, we are trying to look at bureaucracy. The people who gave evidence to us said that they are getting different commands from different funding agencies. The Report mentions the fact that funding methodologies are moving in a different direction, not a unifying one, and that the simplification strategies are also different. We don't know who is responsible. Is it you? You are telling me no.

Martin Donnelly: No, I am not saying that, Chair, and I understand the points that you make. I am merely starting by making clear the ministerial distinction which, as you will understand, we have to work under—

Q45 Chair: We are not interested in who makes the policy. As the Committee responsible for effectiveness, efficiency and economy, we are interested in who on earth is responsible for the implementation of policy that seems to be so ruddy complex that it is wasting money.

Martin Donnelly: We are responsible for post-19 further education. That does not mean that we are not concerned about the points that you make—we are. That therefore places on us, consistent with responsibility to our Ministers for the policy, the need to work extremely closely with our colleagues in the Department for Education.

Q46 Chair: Who is responsible for sorting out the mess, which is alluded to in the Report, about simplification? You are supposed to be simplifying things and cutting out bureaucracy—I've heard this before—but actually you are moving in a different direction. You are supposed to be trying to get—what was my other example; I'm sure I could have picked on others?—funding methodologies. We heard earlier from the Cambridge head who wanted funding methodologies to merge. Who is responsible?

Peter Lauener: Madam Chair, may I add a clarification from the point of view of the Department for Education and the Young People's Learning Agency? The important distinction is in the accountability for the spend of money, where accounting officer responsibility has to go with the line of vote to Parliament. The Department for Education and the YPLA are responsible for the economy, efficiency and effectiveness of the spend for 16–18 but responsibility for the structure and organisation of the further education sector is clearly with BIS and the Skills Funding Agency.

Q47 Chair: So without a distinction for post-19? The policy for FE—

Peter Lauener: The policy for further education is clearly with BIS and the Skills Funding Agency.

Q48 Chair: Okay, so if the policy for FE colleges lies with BIS, then BIS must be responsible for taking on the unnecessary complexity of funding methodologies or simplification strategies. It must be you.

Martin Donnelly: It is clear that in carrying out our responsibilities for this sector—I hope we can come on to how the agencies work together in a moment—it is vital that we collaborate closely with the DFE.

Q49 Chair: But does the buck stop with you, Mr Donnelly?

Martin Donnelly: I think you pointed out that there are formal accountabilities for accounting officers, and this was a point about accountability for public money. I am very clear about my responsibilities for the accountability of spending on further education post-19, and my colleague in the DFE has separate responsibilities. It is important that we work together

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to minimise the burdens on colleges, which could otherwise be placed there.

Q50 Chair: With whom does the buck stop? I understand that there is a funding stream that goes there, and there is another funding stream that goes up to HE. Apprenticeship—that probably goes to you. HE goes to you, actually. Who is responsible? Who takes overarching responsibility for ensuring that on this bit of work, around a tiny bit of the total—if you cannot sort it out here, God knows where you can go elsewhere—you are actually answerable for it?

Martin Donnelly: I would put the issue a little differently, if I may. We have a clear responsibility for ensuring that our delivery of FE policy on behalf of Ministers is extremely effective value for money, and in doing so we need to make sure that we are collaborating effectively, with other funding streams for other policy objectives of other Ministers, so that on the ground we are all delivering these objectives as effectively and efficiently as possible.

Q51 Chair: So why does the Report say, on page 22, paragraph 2.7, that the funding methodologies are increasingly different, and why does the Report say, on page 22, paragraph 2.9, that the simplification between YPLA and the Skills Funding Agency is different? Why? If you were doing that job, the Report would not say that.

Peter Lauener: Madam Chair, may I come in on the point about 16 to 19?

Q52 Chair: I want Mr Donnelly to reply. I am sure there will be an opportunities for you. Why? You have just said that you take responsibility for that, and I have notes all over that page. It looks as if you are not carrying out the job.

Martin Donnelly: With respect, Chair, I said I take responsibility for post-19 FE delivery, and I am also concerned to ensure that we achieve effectiveness. Now, we have two separate—

Q53 Chair: Can you just answer the question? I know you hate being interrupted, but it is a very simple question. Why does the Report therefore tell us, on these two areas—I have only chosen two; I am sure other members of the Committee could choose others—that it is actually becoming more complex? If you accept your responsibilities, why are we in the position where the funding methodologies are increasingly different? Why are we in the position where the simplification programme between the two agencies is different? Why?

Martin Donnelly: I would ask the agencies in a moment, if I may—

Q54 Chair: No, I am asking you as the accounting officer.

Martin Donnelly:—to tell us more about the actual simplification programme we are working on together. In terms of the policies, there are certain—

Q55 Chair: Not the policy; it is the implementation. Why, if you are trying to cut bureaucracy in these two areas, are you moving in the wrong direction?

Martin Donnelly: If I may finish the answer, Chair, there are two separate policies being delivered. There is a policy for 16 to 18-year-olds, and there is a policy for 19-year-olds and over. Our job is to ensure that the policies decided on are delivered with the minimum of bureaucracy and the maximum of effectiveness. We do not have control over all of the policies, but our job, downstream, is to make sure they are delivered effectively.

Q56 Chair: Why are they moving in the wrong direction? Why? If that were true, why?

Martin Donnelly: There is a separate set of policies related to the needs of those of 19 and over, and those of 19 and under. The 19 and over is dealt with in my Department. I understand that this is not the answer you want to hear, but 18 and under is dealt with in the Department for Education.

Q57 Chair: It isn't the answer I want to hear, because this is back to where I was at the beginning. You have accepted you have overarching responsibility for the FE sector. The reason we got this Report is that, clearly, the FE sector is spending too much money on what we all understand is a complex system. However, we could actually save money there, rather than cutting courses to students on the front line. As the accounting officer, you have to take responsibility for ensuring efficiency, effectiveness and economy in the delivery of policies that come out of two Departments, yet you are moving in the wrong direction. It seems to me that you are evading responsibility. I have to take that conclusion from what you are saying.

Martin Donnelly: Well, I have tried to be very clear about our responsibility for post-19 further education—

Chair: Oh dear.

Martin Donnelly:—and that is the situation.

Q58 Ian Swales: May I ask this question differently? If we refer to page 8, paragraph 16, it is quite clear that the Report says, "Department for Business, Innovation and Skills is not making the most of its opportunity to coordinate the process of change with other government organisations." It goes on to give some examples. What are your comments on that paragraph? It seems fairly clear that the NAO is saying, with examples, that the Department is not taking charge of this process in the way that it would expect.

Martin Donnelly: I will make two points, Mr Swales. First, there is always more to do; we accept that and we accept that we have a duty to work harder to minimise the unnecessary burdens. Secondly—overall the Report recognises this, I think, as indeed it does in the second sentence of that paragraph—we are working very closely, particularly through the two agencies here, to minimise those burdens. We have a further education reform and performance board, which brings our Department, the DFE and other key

stakeholders in the sector together to make sure we are doing that.

Q59 Ian Swales: But that very paragraph goes on to say: “Despite these common aims the Departments have not taken an overall view of the impact of reform on further education providers. The Departments and funding agencies have managed the reform of the sector as a series of individual groups of initiatives... rather than as a series of interventions that will impact on the same group”. The whole thrust of the Report is in that paragraph, and the answer that you gave just now is contradictory to what the paragraph is saying, so which bits of it do you not agree with?

Martin Donnelly: There is an important issue concerned with the fact that colleges are autonomous, and Ministers’ policy is to improve the freedom and flexibility with which colleges can do their job. Consequently, we are concerned to ensure that we minimise the burden we place on them in connecting with them and contracting with them to deliver particular services. The DFE is in a similar position; so are many other organisations that they work with, as was mentioned earlier. We also, of course, have about 1,000 private providers that we deal with. There is therefore an issue about how far it is right to take an entirely centralising approach to the relationship between Government and a college. Our Ministers’ view is that we will produce more effectiveness by disaggregating what we are asking for and increasing the freedoms of the colleges to respond—I have seen them do that on the ground very effectively—while making sure that we are minimising the burdens, whether in audit, overall bureaucracy, unique learner numbers and so on, where we can.

Q60 Matthew Hancock: On exactly this point, you will have heard our previous discussion; part of what came out of it was that of course there are different providers of funding streams, which is the argument that you have just made, but there are two things on the back of that that I do not understand. First, could you respond to the proposals put forward that there should be better protocols for the information and data they have to provide, because we heard about the costs to them of providing some of that data and the problem of not having the same protocols across Government, across funding streams? Secondly, it brings us back to the Chair’s first question, which is: if everything that you have said is a full description of what is going on, the amount of work that you are doing together and all of that, why does the Report say that this co-ordination is going backwards?

Martin Donnelly: On the first point, we do work extremely hard to pull this together through single adult skills budgets, making sure sixth-form colleges deal only with the YPLA etcetera. Geoff may want to say a little more about some of the specific protocols. On the second point, it is fair to say that there is still a degree of divergence between the approach taken by the NAO and the approach that we take, although we accept—

Q61 Matthew Hancock: Do you accept, then, that these things are getting more separate rather than closer together, and the YPLA and the Skills Funding Agency are taking more different approaches rather than closer approaches?

Martin Donnelly: Taken as a whole, no, that is not my experience of talking to colleges and visiting them, whether in London, Birmingham or elsewhere. My impression is—I think we did hear some of that—that they do appreciate our commitment to work together, whether that is through a memorandum of understanding at permanent secretary level or, more important, through the culture of co-operation that we believe exists between the agencies that we have directing funding towards these bodies. There is always more to do though, and of course if policy were to change there would be a risk of facing a greater tension in this area.

Q62 Matthew Hancock: Okay, so you are disputing the NAO’s conclusion that the funding methodologies of the two funding agencies are increasingly different, which is in the second bullet point on page 22.

Martin Donnelly: I appreciate this is a difficult point to make. I cannot speak for Department for Education policy towards 16 to 18-year-olds.

Q63 Matthew Hancock: No, I am asking you to speak to the facts on the ground as reported in the NAO Report.

Martin Donnelly: My anecdotal impression—and Geoff is in a better position to comment on this, having had more contact with colleges—is that there is appreciation of the work that we have been doing with the colleges, with Martin and his colleagues, to pull together the requirements. There is more to do in areas such as single audit. There is a plan—a road map to simplify the landscape, reduce bureaucracy and so on—over the coming three years.

Q64 Matthew Hancock: Who is leading on that plan?

Martin Donnelly: The SFA are in a critical role in delivering that plan.

Q65 Matthew Hancock: Are they co-ordinating with the YPLA?

Peter Lauener: Yes, they are.

Q66 Matthew Hancock: So does this plan bring together all the different funding bodies? No? Okay, but the two big ones?

Martin Donnelly: Yes.

Q67 Chair: I think this is quite important. Usually when we have Reports, there is an acceptance of the facts. The funding methodologies of the two funding agencies are increasingly different. That is not an opinion; it is a fact. Are you disputing that Peter Lauener and Geoff Russell?

Peter Lauener: Perhaps I could add a point; I am sure Geoff would. The Skills Funding Agency reviewed its funding methodology 18 months ago and made some changes. We are consulting on the changes to the

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funding methodology. We have just finished a consultation on that and are taking stock. The aim of both has been to simplify the funding methodology. There is an absolute, coherent, joined-up wish to simplify. There are lots of detailed ways we are making sure that we have a single point of contact, single audit regime for colleges and the like.

I was pleased to hear Ian Pryce say that one of the fruits of that is that between us we have both managed to get the allocations out on time with an unchanged methodology for two years, for the first time that anyone seemed able to remember. I couldn't agree more how important it is to get the funding allocations out on time.

Q68 Chair: It does say—just read the end—that, “The lack of coordination creates duplication of work.” Either that is right or it is wrong. Either things are moving, and the Report is wrong, or it is right.

Peter Lauener: I'm sure Geoff would like to come in. There are different approaches in the departments and agencies, but I think it is quite well joined-up when you get to the practicalities.

Chair: Then this is wrong.

Q69 Matthew Hancock: This is about direction. It is about: is it getting better or worse? You are saying it is getting better and the Report says it is getting worse. This is a factual on the ground thing. We heard some positive things, as you have mentioned, from the principals and the previous witnesses, but we also heard that there is further to go. We want to know that you are moving in the right direction. The Report says that in this specific area—funding methodologies—you are moving in the wrong direction.

Peter Lauener: The funding methodologies have changed and have diverged but they are both on a track on simplification. The Skills Funding Agency have begun their simplification process a little bit earlier than we have, because we were looking at some wider 16-to-18 issues, but we have just consulted on the funding methodology. We finished that consultation on 4 January; we are assessing the responses and there will be some quite big issues that will come out that.

Q70 Chair: But Peter, later on that page—I am looking at page 22, paragraph 2.9 first bullet point—it says, “The Young People's Learning Agency is simplifying the funding formula for learners between 16–18 years-old, but the simplifications are different from those proposed by the Skills Funding Agency.”

Peter Lauener: That's undoubtedly the case, and I think rightly so, because there is a different focus for 16 to 18 year-olds, where it is right that there is a much stronger emphasis and focus on qualifications, than for adults, where what Geoff has introduced is a much bigger focus on outcomes, particularly employment ones.

Q71 Chair: You're making it more complicated on the data you require, because you are looking at qualifications, you are looking at something else, so the outcomes and the data become more complex.

Peter Lauener: Madam Chair, if I could come back on that. That is certainly not what I was trying to say. There are differences of direction in the funding formulae, which could easily have happened if we were one funding agency. If it was thought that under the Learning and Skills Council there was a single funding formula—that was not the case. There were four different funding systems for different aspects of provision. So there has been a decision to simplify both, but systems now in slightly different directions, because of the different policy focus relevant to the age groups, and with the additional policy focus for 16 to 18-year-olds as they move towards raising the participation age in 2013 and 2015.

I am conscious that I am occupying the answer spot a little. I am sure that my colleague would like to have a word.

Mr Bacon: We are very happy with you on the spot.

Chair: You usually have an easy time. You are having a tough time this afternoon.

Peter Lauener: Not at all, Madam Chair.

Geoff Russell: I guess it's my turn. First, let me be clear. The YPLA and the Skills Funding Agency probably work more closely together than any two Government bodies I am aware of, not least because we used to be the same Government body, so actually it was tough to pull us apart. We still provide most of their back office. We still reside in almost the same buildings as they do. They are our former colleagues. We work remarkably closely together.

Having said that, I think I know what you are trying to put your finger on. I agree with Peter's comments. I don't think it is for us to debate this, and certainly not me, but if you accept that there is a logic to having a slightly different policy perspective on younger people from on older people—and we don't do policy, we do implementation—then our job is to manage the risk that those diverging policy imperatives, as they get implemented, do not lead to unnecessary, undue implementation issues to deliver those policies. I see Peter 40 times a year, and his people and my people work very closely together. That does not change the fact of what colleges face—and providers too, because this is not just about colleges, as Martin said half our funding goes to private, profit-seeking organisations—it is not just about college bureaucracy.

Our job is to make it as simple as we can, but unfortunately it is a complicated business. It is a matter of debate and you will challenge; it is your job to challenge whether we have got the right level of bureaucracy. We cannot run this business in a simple way. It is a complicated business. Whether it is not simple enough is a good question to ask and to keep pushing on. But I think broadly we have made huge levels of simplification. The gentlemen who testified earlier would probably agree that there has been massive change. We are going in the right direction. We have ripped out an enormous amount of centralised command-and-control bureaucracy. We have removed all the targets. We are not there yet. There is still a way to go but enormous progress has been made.

Do we have to ask ourselves at every stage of the way: have we done everything we can? Yes. We are

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doing that now. We have to continue doing it. But it does not make the life of a college or training organisation easy. I accept that. But you focused on the £900,000 out of £5 million. You could be right that that is too much. I am not sure. As a percentage it is a relatively small number. Colleges and private training organisations put through about £14 billion a year. You are talking about 2% or 3% of that.

Chair: This is on only 12 colleges.

Geoff Russell: I understand. In fact, private training organisations suffer far less administrative burden than colleges, which is one of our issues with this Report.

Chair: I agree that what we are concentrating on this afternoon is a tiny bit of the £1 in £5. I also accept that, interestingly enough, only 3.6% of that money goes on admin. I think there is a much wider problem around bureaucracy than this Report probably alludes to. But if we can pull out a bit of money on this one it might help you elsewhere. It will certainly help you on your £1.1 billion cuts. It might be nice to have one accounting officer being accountable.

Q72 Ian Swales: I should like to pick up something you have just referred to in terms of the separation. This break at 19 not only might be part of the issue but can affect individual learners. I have cases in my constituency where people have started on a two-year vocational course and gone over to 19 midway through and found it very difficult to continue the course. I am sure that they did not know that they were going to have a different Secretary of State for their first year of education from their second year. Do you think that this—one might argue—artificial break in today's world at 19 is sensible and also, what will you do when education is compulsory to 18? Will that mean you go back to having one agency again?

Geoff Russell: I can deal with the implementation side of your first question, which is, does it make our lives easier? Does it make learners' lives easy? No. Do we do our best to work around it? Yes. Is it the right policy? That is not for me to question. When the participation age goes to 18, I do not believe there will be one agency, but Peter may want to comment.

Peter Lauener: It is arguably one of the most significant changes in society for 100 years, you could say—moving the participation age to 17 in 2013 and 18 in 2015. We are a substantial way along that route already. There are a few percentage points that we need to gain—more of an issue for 17-year-olds than 16-year-olds. When we get to that point—the trajectory is looking good, but the last few points are always challenging—I do not think it is then a question of whether we should look at organisational change again. I think the issue then will be whether we are really getting progression from 18 and beyond. At the moment, there is a big emphasis on getting young people achieving as well as they can up to 18.

Q73 Ian Swales: This Report, or this whole issue, is about reducing bureaucracy. My question is really whether you think that such a move would give the opportunity to reduce bureaucracy.

Peter Lauener: I do think there are opportunities to reduce bureaucracy. I referred earlier to the funding consultation on 16 to 18 education and training, which has just closed. At the moment it is quite a complex funding formula, based on individual qualifications. One of the reasons for that is that historically and over the life, if you like, of this centralised funding of further education going back to 1993, for a long period the participation of 16 to 18-year-olds was much lower than now. As we get closer to a point at which we are talking much more about full-time participation, I think the opportunities are to simplify and go on to something that looks a little more like a pre-16 funding programme, rather than a qualification based formula, and that could save money for colleges and other providers.

Q74 Ian Swales: With provision getting more diverse in the sense of the Government's schools policy, the Government are having to fund a whole load of different types of organisations, all the way from—well, right from the start. I am querying whether either 16 or, in the future, 18 justifies having these very separate ways of looking at things, given that the Government have decided increasingly to fund many types of establishments through their agencies. How much can we bring together the agencies and then have them facing outwards to all the different providers?

Peter Lauener: Two points on that, if I may: first, on the funding of a lot of different organisations, 16 to 18, I think that is a benefit for young people because there is a very wide range of opportunities in schools, academies, sixth-form colleges, general further education colleges and independent providers. That seems to me one of the defining characteristics of 16 to 18; there is a much wider range of opportunities. Going back to the point about 18-year-olds, of course, the big distinction at 18 is that many more young people—increasingly so, with the raising of the participation age—will join the labour market at 18 or go on to higher education, so that is the point at which you move from full-time education into the labour market or higher education. That is quite a justification for keeping a coherent 16 to 18 approach.

Q75 Ian Swales: A last question from me, on the assessment and so on of providers and courses, and I am thinking particularly of vocational providers. To what extent does your organisation work with the Skills Funding Agency, in terms of looking at that provision, deciding how it is funded, qualifications and so on? You must be doing the same thing to some extent, because some 16, 17-year-olds go into group training associations or whatever, whereas some are still in school and some are elsewhere, so how does that work? Surely the Skills Funding Agency is looking at the same organisations in many cases.

Peter Lauener: That is one of the things about which there is a pretty good story to tell. Over the past couple of years, we have developed a joint code of practice for audit to ensure that we are auditing against the same principles, and a single audit. There are no cases where, in the traditional Flanders and

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Swann way, Geoff's auditors will go in one day and mine will go in the next day, because I take assurance from the information and audit that Geoff has for the organisations, including general further education colleges, that the Skills Funding Agency will—

Q76 Ian Swales: Does each provider have one point of contact then, particularly for audit?

Peter Lauener: Basically, yes.

Q77 Ian Swales: It will be either you or the Skills Funding Agency?

Peter Lauener: That's correct.

Ian Swales: That's progress.

Q78 Mr Bacon: On this point, Mr Swales's line of questioning leads to the inquiry I had about figure 9. It states in the various strands of the simplification programming that strand 2 includes providing learners with information to make a choice about quality of providers. One of the issues is the individual learner records maintained by the learner rather than the provider. Is that just about quality or does that include things like attendance? I have a particular interest in this because of what happened at the Manchester College of Arts and Technology, which I drew to the Government's attention some years ago.

There was a widespread allegation of essentially institutional—I see the NAO nodding—fraud. College registers were being marked in a secondary system, and that was not the one being submitted for the funding—it was a separate one. When PricewaterhouseCoopers looked at it, it found that in 36 out of the 39 cases it examined, more cases were recorded on the secondary system—the one that was used for funding—than on the originals. Some people left the Manchester College of Arts and Technology and went to the city college, but unfortunately, when they merged, they were also then targeted for redundancy and made to sign gagging clauses. Since funding is related to the number of people who attend, there is an obvious interest in making sure that the audit strand is sufficiently robust so that it covers that thoroughly. Can you speak about that?

Peter Lauener: We run a single individual learner record, which is maintained by the Data Service for FE, and we pay a bit to the Skills Funding Agency to maintain that on our joint behalf. It is one data system and one set of individual learner record.

Q79 Mr Bacon: So, Mr Russell, when it says, "individual learner record maintained by the learner rather than by the provider," is that purely about the quality and variety of courses that people can attend, and not about whether they attended?

Geoff Russell: It is not about whether they attended during the course, but whether they got the qualification. What it really means is that we are going to create something called "the lifelong learner account", whereby the provider and the learner will agree on what qualifications were obtained at that institution. It will be recorded centrally by us, but accessible by the learner. When the learner comes to a new institution and says, "I would like a

qualification", the learner will give permission to the provider to access their account to see what progression they have reached.

Q80 Mr Bacon: This lifelong learner account will apply to the individual?

Geoff Russell: It will.

Q81 Mr Bacon: Have you therefore thought of calling it an individual lifelong learner account?

Geoff Russell: The point is that there is no money in it. It is not like ILAs, which Peter, I think, can talk for England on. There is no fraud risk in it. This will actually reduce bureaucracy.

Q82 Mr Bacon: Pedalling back a bit, where does the fraud risk arise? The funding for colleges rests on attendance—on students turning up for courses—doesn't it?

Geoff Russell: At the moment.

Q83 Mr Bacon: Right, and will that simply cease?

Geoff Russell: For adult learners, we are shifting the funding system to focus on outcomes—did you get a job, did you get on in a job, did you become an apprentice, did you go on to further or higher education elsewhere?

Q84 Mr Bacon: If they went off and got an apprenticeship, you would be happy, even if they had not turned up to a single course?

Geoff Russell: They have to be signed up for a course, because we will pay for three things—

Q85 Mr Bacon: Who checks that they attend?

Geoff Russell: Our funding auditors will go in and check that they were signed up at the college. We will pay for teaching and learning, but if the learner actually got a job before the qualification was achieved—

Q86 Mr Bacon: I am not talking about the next stage. The next stage is very interesting, and we are all hopeful that it works.

Geoff Russell: You did ask me about the audit function.

Q87 Mr Bacon: I will give you an example to illustrate why I am interested in this. A tutor in the computer imaging department of the Manchester College of Arts and Technology said, "If students were absent, we had to mark them with a zero...the student would be withdrawn after three zeros, but I was told not to mark students who ceased to attend with a zero. It was explained to me that if a student were to be withdrawn before a certain benchmark date, the college would lose funding... I was told by a divisional leader to mark a student who had ceased to attend as being off with 'authorised absence' or AA in the register. I was very uneasy about this; I put A, or absent and from then on photocopied my registers each week."

Akin to that, what is going to be done to continue to check that people actually attended the courses that

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the public purse is paying for them to attend? That is separate from the later question of whether they got a job and became chief engineer in a big factory, and managing director 20 years later and all those good things. The earlier question is the one I am interested in.

Geoff Russell: We employ a small army of funding assurance auditors who do exactly that.

Q88 Mr Bacon: They audit and they sample registers, course attendance and that sort of thing.

Geoff Russell: Yes; on the current funding system they are required to check all those details.

Q89 Mr Bacon: What is going to change?

Geoff Russell: As I said, we were going to move to an outcome system.

Q90 Mr Bacon: So will there be a sampling of the attendance at courses?

Geoff Russell: There will probably be less emphasis on that, because there will be less funding devoted towards that. Part of the funding will be devoted to teaching and learning. Part of it will be devoted to the outcome.

Q91 Chair: Will you monitor attendance? Just say yes or no.

Geoff Russell: We do not monitor attendance now. Colleges monitor attendance.

Q92 Mr Bacon: One of the things that concerns me, and I drew the Government's attention to this some years ago—in fact, I am reading from an article about it in *The Guardian* from 27 January 2009. One of the things I said at the time was, “Until we obtain a complete picture of what happened at Mancat”—the Manchester College of Arts and Technology—“I feel the Secretary of State should proceed cautiously in granting more freedom and self-regulation to colleges.” I am all for freedom, self-regulation, autonomy and all the rest of it, subject to the right kind of framework and the right kind of ability to check that public money is being well looked after.

Geoff Russell: I couldn't agree more.

Q93 Mr Bacon: So in this new world where there is even greater autonomy, and given that less funding will be devoted to this strand, what are you going to do to ensure that this kind of thing does not happen again?

Geoff Russell: The thing I take greatest comfort from is that instead of looking at signatures—one of my colleagues mentioned the obsession with wet and dry signatures—when you are funding on outcomes you actually go and find the learner, rather than look at their signature, and you see whether they got the job, see whether they became an apprentice, speak with them—

Q94 Mr Bacon: That is an answer to a different question. I am all for good outcomes, but that is another strand—did it actually work, and was it effective in producing the desired outcome? That is

not an answer to the question, “Was the public money well spent in getting them to attend this course?”

Geoff Russell: The objective is not to get them to attend a course per se; the objective is to spend public money to get the outcome. If they do not actually need to spend a great deal of time in the classroom to get the outcome, I think that is a good use of public money.

Q95 Mr Bacon: If they did not need the course at all, and somebody else who needed it more could have had their bum on the seat instead, that is not a good use of public money.

Geoff Russell: I am not sure. Courses are not about whole qualifications; we pay for units. If someone went in and got three units and, God forbid, they actually got a job, we would pay for the three units and we would pay for the job outcome, but we would not pay for the rest of the qualification.

Q96 Chair: I was around when the situation that Richard Bacon is referring to was happening. We were coming across colleges that were absolutely desperate for money and were signing people on, but those people were not showing up at their courses, so a lot of public money was going on funding courses where people were not attending or achieving outcomes. It was because of that lack of integrity in the system that we introduced the monitoring—Peter Lauener might well remember this—of attendance in FE and in HE, where drop-out rates were huge. If you are taking your foot off that accelerator, we will be back here in three years' time—

Geoff Russell: Please don't think I am taking my foot off the pedal—I was an auditor myself, and one of the things that concerns me about freedoms and flexibilities is precisely that I am the one in charge of getting stewardship of public money. An argument that some of my people put forward—I have some sympathy with it—is that the relationship between freedoms and flexibilities and assurance should be an inverse one. We think about that very seriously, but we will not let up on the assurance pedal, believe me—that is not our intention.

Q97 Mr Bacon: Are you in favour of the inverse one—a sort of hovering squab that can fly from 100,000 feet down to six inches very quickly and in any direction? Is that what you are saying?

Geoff Russell: When we had the command-and-control system, there was less need for assurance, because you couldn't get the money unless you improved and had gone through all the hoops and whistles. When we basically now say, “Here's a pile of money—you do what your community wants you to do with it,” that's fine, but we need procedures to make sure that the learner learns something, gets an outcome and is satisfied with it, because value for money is something that I take very seriously.

Q98 Mr Bacon: When you say there is an argument for it, it sounds like an argument is going on now inside Government. Is that right? Are you there yet?

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Are you happy that the systems that you are going to have will do this?

Geoff Russell: I think there are some people who say that freedoms and flexibilities also means freedom from audit. I don't agree with that myself.

Q99 Mr Bacon: That was nearly the impression we got from the DFE over the academy programme. It would say that I am misrepresenting it, but there was certainly a lot more emphasis on the freedom than on checking that money went where it was intended to go.

Peter Lauener: If I may say so, Mr Bacon, I think that that slightly misrepresents—

Mr Bacon: I said that you would say that, in fairness.

Q100 Chair: I don't understand. You are not squaring the circle for me. You are not auditing. You are auditing on outcomes. You are keen that somebody gets a job, so on day one they go on a course, but then they manage to get an apprenticeship three weeks in and leave the course to go to something else. The teacher and the college want to keep the course going and it is attended by three or four people, but there is no way you are going to pick that up.

Geoff Russell: The system as it stands pays people to have bums on seats. It could well be that the intervention the student needs is not to be in a classroom. We are kind of out of the business now of saying to colleges, "This is not only what you should teach, but how you should teach."

Q101 Chair: No, it is not "how" you should teach, but "that" you should teach.

Geoff Russell: I agree.

Q102 Chair: If you have no students, because they are not attending, it would be quite nice to know that we were not paying for that out of the taxpayers' money.

Geoff Russell: That is why there is a focus on outcomes.

Q103 Amyas Morse: Have I understood you rightly in saying that that is something that you will transition towards in a controlled fashion, not just suddenly? I ask just to clarify what I have understood you to say. You will continue to monitor people attending and you will gradually move towards an outcome regime—is that right?

Chair: I think they are not monitoring who is attending.

Geoff Russell: The current regime is based on the existing funding system and the existing audit practice system, and we will move over the next couple of years in a very controlled fashion, working very closely with the sector, which we do already, but moving very firmly more towards outcomes. To me, the protector of public value is not, "What did you do to them?", but, "Did they get the outcome that was actually what the policy was intended to buy?"

Peter Lauener: Madam Chair, may I make a quick point? I think that this illustrates an area where there

perhaps needs to be a difference between 16 to 18-year-olds and adults. We would certainly expect to maintain the funding audit of the fact that people there, and there is a sample audit at the moment to make sure that that happens. I can't envisage not having that, but I can absolutely see the direction of travel that Geoff is talking about.

Chair: It might be an area where you should be consistent rather than inconsistent.

Q104 Meg Hillier: Mr Russell, how many staff are employed in your organisation?

Geoff Russell: The Skills Funding Agency was born on 1 April 2010 with 2,000 people, and as of last month we had 1,200.

Meg Hillier: Peter Lauener?

Peter Lauener: five hundred and twenty.

Q105 Meg Hillier: Am I right in saying that the SFA gave £3.6 billion to FE in the last financial year and, Peter Lauener, that the Young People's Learning Agency gave £4.1 billion to FE in the last financial year, yet, Geoff Russell, your admin costs are £122 million and those of the Young People's Learning Agency are £48 million? Will you comment on that discrepancy?

Geoff Russell: Happily. We run much of the back office for the YPLA—all their IT and, as we have just discussed, we do their funding audits. We oversee and regulate, at the moment, 200 or 300 colleges and we oversee much of the financial health monitoring for the 1,000-odd private training organisations that we both use. Peter runs, broadly, a lagged funding system, which is basically—like schools, you give someone money based on how many people they recruit, you write them a cheque and say, "See you next year".

Because half of our funding goes to profit-seeking private training organisations, we are not, in order to protect public money, in a position to say, "Here's a cheque, see you next year", for two reasons. One, because what drives the people that are in colleges and schools is a bit different from what drives people in private training organisations. That is not to cast aspersions: they are a crucial, high-quality part of the system. The other thing is that private training organisations tend not to be as diverse as colleges, so if we give them a pile of money, which they say they can spend and they don't, and we don't check regularly whether they did, we could wind up at the end of year with organisations that have piles of money unspent but a number of organisations with unmet demand for learning.

So one of the things that we do that Peter doesn't do is that, every three months we go to our suppliers and say, "Have you spent it? Do we think you're going to spend it? If not, we'll have it off you and will recycle it back to people that do." This is a much more labour-intensive activity. But we have shrunk significantly in terms of our size. Our remit is much lighter touch. But again, we employ 100 funding auditors, 200 IT people.

Q106 Meg Hillier: Can you tell me how much your admin costs have gone down? You said your staff

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numbers went down from 2,000 to 1,200 in the space of—sorry, was that a year?

Geoff Russell: Yes. A year and a half.

Q107 Meg Hillier: And how much did your admin costs go down in that time?

Geoff Russell: By the end of the CSR period, our admin costs will be something like £85 million.

Q108 Meg Hillier: Okay, that is then. What about from 2010–11? If you can't tell us now, do write to us about it.

Geoff Russell: We won't get the benefit of the staff reduction till March this year, because most of the staff only went in December. We're required by BIS to reduce our admin costs—we reduced them by 11% last year and will reduce them by a further 33% over the next three years.

Q109 Meg Hillier: Will that affect the number of auditors you've got doing the funding auditing that you mentioned?

Geoff Russell: We lost a few, but at the moment it's not my intention to reduce that force by very much, at least not for a few years until we've changed the system and unless it seems like a sensible thing for us to do.

Q110 Meg Hillier: Okay, so in the priority ranking order where would you put the funding auditors? Are they the untouchables or—

Geoff Russell: No, because technology changes and methods change. I don't think anyone's untouchable. But I would never want to preside over one of those fiascos. And I spent 25 years of my life as an auditor. I appreciate the importance of it.

Q111 Meg Hillier: I want to touch on the point I raised with earlier witnesses about the whole college view. I wonder whether you want to comment briefly on how you think that's going, having heard what they've said about that.

Geoff Russell: I said earlier that I think it's important for us to check at various stages in this process, where we are going from a centralised command-and-control model to local freedoms and flexibilities, that there is nothing left of the old regime that we need to throw away. So we are going through that process now. We will have to do it again. We're not finished. It's going to take us a couple of years to put through this radical change in approach, which will create far less bureaucracy. But that was never the objective of it. The bureaucracy reduction was a happy by-product. The policy objective was to give freedoms and flexibilities and to trust colleges and providers to know what was needed in their communities, rather than have me or somebody else tell them what to do. The logic of having a target and measuring bureaucracy reduction, I am struggling with. The importance of making that policy—

Q112 Meg Hillier: Isn't that the policy—the bonfire of red tape?

Geoff Russell: The primary goal of the policy was as I described. My job is to make sure that there is the minimum amount of bureaucracy that we can get away with, consistent with protecting public money. It isn't clear to me that 3.6% or 3.8%, or whatever it is, is over much.

Q113 Chair: What is it? Where do you want to get to? I don't know if any of you can help—I don't know whether you have sorted it out—but 3.6% is the percentage you are spending just on this bit of bureaucracy. What is reasonable to you?

Geoff Russell: I have no idea.

Q114 Chair: Have you got an idea, Peter?

Peter Lauener: I think it's very difficult to give a figure; I know it's tempting to try and reach a conclusion on a figure. I think that what we need to do is to bear down on costs in every part of the system, certainly including our own part. We have both significantly reduced costs as a proportion of the spend that we are managing.

Q115 Chair: And have you got a figure, Mr Donnelly?

Martin Donnelly: Well, that is why we are doing the whole college view, to give us more of an in-depth look at where these costs—and, indeed, where some of the benefits—to the colleges come from, so that we can see more of what is going on, building on the indicative work the NAO has done. But it is a very complex area. When we have more data, we will be in a better position to see what more we can do, while maintaining our policy goals.

Geoff Russell: As Ian mentioned earlier, it is quite hard to distinguish between the costs of stuff that colleges need to do themselves and the incremental piece that we require of them, some of which is probably unnecessary—hopefully a whole college view will eradicate that part—but some of it is clearly necessary, because it is the price of using public money.

Q116 Meg Hillier: In my experience locally, every year there is the worry that some students will lose out; some of them may have lost out already. The college can't start courses. In my area, it really is about employability. People are desperately keen to improve their lot in life. I know that you can't talk about policy, but the process of policy, Mr Donnelly, is very much in your bag. That seems to be one of the big issues, and that applies to Governments of all parties; I am not making a party political point. So I would be glad if you picked up on that point.

Also, Mr Donnelly, I wondered if you could say how BIS has calculated the additional burden of charges, given the changes in methodology that are coming in next year. Have you done an analysis of that, or is that part of the whole college view process? I'm sorry—those are two points that I have thrown at you quickly.

Martin Donnelly: On the first point, I absolutely recognise and agree with what you say about certainty. Our job is both to maximise the certainty we have got and to communicate it more effectively, which I think

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is linked with trust. We have got a bit better, even since the NAO Report, in convincing colleges that, as it were, we mean what we say. And the responses we got to the “New Challenges, New Chances” consultation paper over the summer from several hundred respondents confirmed that. We have got to go on doing that. We have got better at communicating in one way, through a weekly note that the SFA pulls together, so that we are not giving different—even if well-meaning—bits of advice to colleges. That helps with the trust issue.

Obviously, when we are advising Ministers, one thing we do is to ensure that we flag up the implications on the ground for any policy changes, and we worked very closely with the SFA, the YPLA and others, through our reform and performance board, to make sure that we are picking those up.

On the precise question of the funding changes, I don’t know, Geoff, whether you want to comment on that.

Geoff Russell: I am not sure that I understood the question.

Q117 Meg Hillier: Has BIS calculated the additional burden of the changes in the methodology in 2013?

Chair: I think Mr Donnelly should answer. You are the accounting officer, Mr Donnelly.

Meg Hillier: Because it’s about both bits, not just the bit that is Mr Russell’s responsibility.

Martin Donnelly: Are we talking more widely? Or are we talking about the FE loans issue here?

Chair: No.

Q118 Meg Hillier: We heard earlier that, as we know, there will be some further changes to methodology, which are being discussed in Government. So, after two years of it being stable, which seemed to be met with great whoops of delight from previous witnesses as a unique achievement in Government—sorry, I am being a bit facetious—we hear there are changes afoot. Clearly, there is a nervousness out there about that. So have you calculated the impact—the cost, or the burden—on colleges?

Peter Lauener: I don’t want to interrupt—

Chair: Would you allow Mr Donnelly to reply? He is the accounting officer.

Peter Lauener: Can I give a little piece of information first? We do not yet have a proposal on the way forward for the funding changes I talked about. When we do, I would certainly expect—

Q119 Chair: It is a very simple question. Have you looked at the cost—the implication on bureaucracy for the colleges—of the changes you are proposing? Yes, or no?

Martin Donnelly: We have set out a road map to 2015 of the changes that have been agreed and are in train, which will reduce the costs to colleges—

Chair: No: you have been asked a specific question.

Meg Hillier: It is about the change.

Martin Donnelly: Which change are we talking about?

Q120 Meg Hillier: Any change of methodology, be it regarding active and inactive learners of English for speakers of other languages, for example—

Chair: Or fees.

Meg Hillier: Or fees. There are various changes. It is the change itself that, as we have heard from witnesses and picked up elsewhere, is causing challenges for colleges. Overall, your endgame may be to reduce costs and burdens, but the very fact of change year on year creates burdens. So what analysis have you done of that year-on-year change? Even if the long-term goal is the pot of gold at the end of the rainbow, along the way we might have some rain. Do you agree, or have you done such a detailed analysis that it is all going to be smooth, wonderful and unproblematic for colleges? I am not trying to be silly—have you done the analysis?

Martin Donnelly: I agree that it is important to be precise here. I believe the ESOL changes have gone through the system, and we have now got that right. I will have to check on the precise estimate of the costs of the FE loans coming in, but we have been doing a lot of work on that. I will happily let you have a note.¹

Chair: Okay, we will move on, but it is interesting, because one of the criticisms in the Report is that you do not know the costs of your bureaucracy. Meg asked a very simple question.

Q121 Ian Swales: Can I just say that I think the answer to Meg’s question is at the foot of page 30 of the Report? It says—I am not trying to be funny, because I think we need an answer—as part of the change programme, “Each initiative has been given a projected outcome but the Department lacks a clear plan setting out how all the initiatives work together as a programme...the Department recognises that many of the initiatives affect each other but there is no detail on how this will be managed.” Responding to that point might help us. Do you accept that point? If so, what will you do about it?

Martin Donnelly: I don’t believe we fully accept that, to be effective, these changes have to be a programme. We are trying to identify, using the new information we are getting—some of which the NAO has picked up; more of which we will get from the whole college view—where on the ground we can do things differently or more rapidly. That is not the same as an overall programme. Our view is that it will be more effective to take each strand separately, take it forward and work with the two agencies and others.

Q122 Ian Swales: Even if they interact with each other?

Martin Donnelly: We will certainly need to pick that up, but I think it is difficult to say in advance what all the interactions are going to be.

Chair: I don’t think you are answering the question at all.

Q123 Meg Hillier: Effective for whom? Is this effective in policy outcomes? Obviously that is important, but it also has to be something that colleges

¹ Written evidence provided-Ev 24.

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can deliver. If it is all last-minute changes or different strands doing things at different times, and if you are not looking at the cross-cutting impact and where the strands interact, I cannot see how it can be. Are you looking at that? That will have to be done. Are you looking at that? Have you done an analysis in which we can see the figures?

Martin Donnelly: We are committed to ensuring that public funds and learners are protected and that we maximise the autonomy of colleges. Moving down a level, we have published a three-year rolling plan of what we want to do to simplify the bureaucracy.

Q124 Meg Hillier: That is all a lot of words, but have you done the analysis? Will you do the analysis? Will there be information for colleges and for us as parliamentarians about what the cost burden of these changes is for colleges?

Geoff Russell: Could I comment?

Meg Hillier: Perhaps Mr Donnelly could answer that first, and then you are welcome to comment.

Martin Donnelly: I think this is about understanding what is going on and finding out what those burdens are, which we will do by the end of March through the whole college programme.

Chair: I don't think that answers the question. Just answer the question.

Ask once more, Meg. Third time lucky.

Q125 Meg Hillier: Have you done an analysis, or will you be doing a detailed analysis, of the burden of these changes on colleges?

Martin Donnelly: We are doing that analysis through the whole college programme. We are looking at all the burdens and benefits that colleges get, and we are looking at what more we can do to streamline this.

Q126 Meg Hillier: So, when will we see the results of that review, and how will it be presented to colleges?

Martin Donnelly: I assume that we will share the whole college view results.

Q127 Chair: This is not the whole college view. Meg is talking about the changes—the changes you are implementing. Have you looked at the bureaucratic burden of those changes? No? *[Interruption.]* Right; thank you. It took us four times.

Geoff Russell: Can I just mention an analogy I have used with my colleagues at the NAO? Every single one of these steps is to reduce burdens on colleges, so I feel a little like Mikhail Gorbachev dismantling communism and being challenged by the USSR audit office for not measuring the benefit of going from communism to democracy. This is a huge policy change, whose objective was not bureaucracy reduction in and of itself but to give colleges the freedom to make decisions.

Q128 Meg Hillier: But if the by-product of that freedom is more bureaucracy—

Geoff Russell: It will not be.

Q129 Meg Hillier: You are very sure that it will not be.

Geoff Russell: I am absolutely certain.

Chair: You should measure it, Mr Russell. Instinctively, you may be absolutely right—

Q130 Meg Hillier: Mr Russell, I shall be the biggest champion of your organisation if that is indeed the case, because I have been frustrated as a local MP over seven years about the challenges faced by my college and, therefore, by my constituents. You are saying it with great confidence, but how will you know?

Geoff Russell: Because we deal with colleges, and we are working with colleges to do this. We did not just think of this in a room in 1 Victoria Street. We work very closely with colleges, and if ever Martin or his colleagues said to me, "That's rubbish, Geoff; don't do it," I would listen.

Madam Chairman, with respect, I believe in the importance of measuring things, but I am not sure that we have anything to compare it against. To go to the point that you made earlier, I can tell you that Tesco's suppliers have to fill out a 200-page application to be a supplier of Tesco.

Anyas Morse: Can I just try to help? We are not arguing that you are not trying to do the right thing in directional terms. Quoting from your business plan, there is a bit that mentions removing control from further education funding, auditing and monitoring to reduce bureaucracy in colleges. We are just saying that if you want to manage that through without friction, we think there needs to be quite a bit more detail about how it will be accomplished. That is what the Report says. It is not saying that you are doing the wrong thing. We are not disagreeing with your direction of travel, but we are saying—this is really the point that Meg is making—that if you are going to avoid unintended short-term consequences as you go along, you need to have a little clarity about how you will manage the friction. That is what we are saying to you. This is not some point on which we disagree with the direction of travel; we do not disagree with the direction of travel.

Geoff Russell: I understand. I would not disagree, and we do have much more detail, but it is not in my business plan.

Chair: Right, let's keep it going. Austin, then Fiona.

Q131 Austin Mitchell: In the Committee's Report—it was last August, I think—we said: "The framework of accountability for 16 to 18 education is complex and risks over-burdening providers." We recommended that the Department for Education and BIS should "clarify roles and eliminate duplication of demands on providers." The Government said—astounding to hear—that they "partially agreed with the recommendation"; I am not sure what "partially agreed" means. Complaints were put to me by the Grimsby Institute at a meeting on Friday, and those complaints are echoed in the NAO Report, which found that "the level of administration is still perceived as high"—as a burden on the colleges—

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“consuming college resources that might otherwise be available for delivering training.”

The NAO Report gives these examples. First, “significant effort goes into providing data for the funding system. Some of these data are not required for delivery or governance within the college.” Secondly, colleges have to provide reporting data on all students educated by partners. Thirdly, “Continuous changes in funding requirements and the subsequent data needed create a significant drain on resources.” Fourthly, “Data returns, audits and budgets focus heavily on delivery outputs...rather than students achieving qualifications.” Finally, two bodies award qualifications, “which creates duplication of work.” The list goes on. What has been done about all those? It is a long list, but it echoes complaints made to me by the Institute, and clearly made in the Report, that they are asked to report to too many people, in too many directions and on too many things, with a lot of overlap.

Peter Lauener: Perhaps I could take that since it was prompted by the reference to the 16 to 18 Report? Could I give some examples of the concrete changes that we are planning in sixth-form colleges? I know Grimsby Institute is not.

Q132 Austin Mitchell: Planning. Not done yet?

Peter Lauener: There are very similar things being done in parallel with the work that Geoff has described. Lord Hill, one of the DFE ministerial team, announced just before Christmas that we are discussing with the sixth-form college sector three significant changes. First, we currently require sixth-form colleges to have a separate internal auditor to give an annual opinion on risk management and control. We are considering whether we should take that away as a return to us. Secondly, we are considering whether we should therefore remove the requirement to have a submission back to us of an annual internal audit report. Thirdly, we are also looking at whether we still need an annual self-assessment of financial management and control by sixth-form colleges.

Those are things that we would always retain the ability to require in more detail when necessary, but in a stable sector, as the sixth-form college sector is, and in a sector where we can monitor any risks by looking at annual financial returns, those are quite sensible and incremental changes we can make to reduce bureaucracy.

Q133 Austin Mitchell: But are you satisfied that that will reduce the burdens on sixth-form colleges?

Peter Lauener: I think that those changes would reduce the burdens, and they have been welcomed by the—sixth Form College Forum

Q134 Austin Mitchell: I am sure they would be welcomed, but would they reduce the burden substantially?

Peter Lauener: They have reduced the number of returns that need to be made and also the imposition of control. They allow us still to have a proper assessment, just by looking at audited accounts and

financial plans, of whether there are any risks emerging. I think they do reduce the burden.

Q135 Austin Mitchell: You have been considering them, but you have not implemented them yet. What about BIS?

Martin Donnelly: We have been working very closely on shared services, a single point of contact, mutual assurance and audit, and joined-up processes, which is part of responding to this. I think on the delivery end—I was discussing this with my DFE colleague Tom Jeffrey recently—we are satisfied that real progress continues to be made. It is part of the wider simplification. We still of course are delivering different policy outcomes, which goes back to our initial discussion.

Q136 Austin Mitchell: What about the emphasis on results, rather than returns?

Martin Donnelly: I think there is a question of what we are looking for at 16 to 18 and what we are looking for at 19-plus, which are similar but not identical.

Chair: Oh dear! Fiona.

Q137 Fiona Mactaggart: One of the proposals from our earlier witnesses was that this area should adopt the one in, one out principle in regulation.

Geoff Russell: I think we have probably already earned quite a bit of credit then, because colleges that I speak to and that have given us comments have made it very clear that they welcomed the removal of targets and individual budgets to create just one single budget. Private providers have welcomed access to the college budget, which is one budget for all providers. We do not now require them to send us a plan every three months, against the plan that they send us annually, on what they are going to deliver. That does not mean to say that we should not go further. The principle is one I agree with—who would argue against it?—but it is important to recognise that we have made a lot of progress already.

Q138 Fiona Mactaggart: So you are happy, as a sector, to adopt one in, one out? You say you are doing it already. Let’s make sure it always happens.

Martin Donnelly: It is ultimately for Ministers, but I would emphasise the point that we are a long way down this route. The Education Act, by giving colleges greater financial freedoms and control over their own governance and by reducing intervention, moved us a lot further. We would be very worried if there were any movement back. I am not sure that a formal one in, one out helps substantively to move us any further down that path, but we should keep an eye on it.

Q139 Fiona Mactaggart: Thank you. If you look at figure 10, you will see that one of the areas that has been identified by the NAO as offering potential for saving in bureaucracy is in qualifications and awarding. I wondered what work you have done with Ofqual to reduce the burden placed on providers by dealing with so many awarding organisations.

Geoff Russell: Shall I have a go at that?

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Martin Donnelly: Yes.

Geoff Russell: Private training organisations tend to use only one or two awarding organisations, because the cost and the bureaucracy associated with dealing with them is minimised with volumes. You mentioned earlier that colleges have a wider variety of provision. They tend to use more awarding organisations. There are some colleges that have radically reduced the number of awarding organisations they use and have saved quite a bit of money, in terms both of what they paid the organisation and their own administration. I think that there is much to be said for that.

Q140 Fiona Mactaggart: And as a consequence, they have radically reduced choice for their students. Could there not be something else done to reduce the differences, and the differences in the bureaucracy, of the awarding organisations, so that we can maintain the choice and appropriateness of different qualifications to different kinds of students, but reduce the burden on colleges? I asked what discussions you had had with Ofqual on doing that, and I imagine that is a question to BIS.

Martin Donnelly: Ofqual is a member of our reform and performance board, which seeks to look at how the different demands of organisations can be streamlined, while respecting their independence in many cases and also, as Geoff has mentioned, the fact that there is a complex range of qualifications required, including new ones developing, for example, in high-tech areas. We have to try to manage a balance here, but I take the point that we do not want any more complexity in the qualification provider than is necessary to ensure the standard needed.

Q141 Ian Swales: Earlier on, I gave the three previous witnesses one wish and I think we have talked about two of them. Mr Chris Lang, when asked the question, said he would like to see consistent principles and audit across all learning provision. That is his dream. What would it take to move us more in that direction and what needs to be got out of the way?

Martin Donnelly: We are working towards a single audit framework by 2013–14. Geoff may want to say a little bit more about that. I am conscious that we cannot keep all audit requirements in there; for example, there will be European audit requirements, which are always separate, for ESF or other money. The aim is to bring together what colleges need to do and what we require to safeguard value for money and to check that the outputs are occurring.

Ian Swales: That's good.

Geoff Russell: I think that Martin has described that very well. On your systems point, one of the first things that occurred to me when I came into this job was, "We could save the sector and ourselves hundreds of millions of pounds, if we just had one system." As Ian said, there are lots of systems out there and they all use different ones, none of them terribly efficiently, because they are not that big. The problem I came up against was that colleges are independent and self-governing. If you think about the NHS patient records system, they were told, but they still didn't do it. You can only make that sort of thing

happen if they wish it. We have encouraged it and we have given money to the sector, saying, "Think about this idea." I think that it is coming closer, but it has to be one that they wish to do and that they see the value in, because if you have any experience of IT—I think we have all seen the disasters—it is about biology, rather than technology. They have got to come to the water to drink, but I completely agree that it would be fantastic.

Ian Swales: Thank you.

Chair: Meg, do you want to ask your question?

Q142 Meg Hillier: If you look at apprenticeships, you apply through one route for apprenticeship funding, whether it be DFE or BIS funding, which begs the question: if it can be done for apprenticeships, why can it not be done for other things, particularly at the 18–19 age threshold? I do not know which one of you wants to take that.

Martin Donnelly: We have got better at managing the 18–19 age thing, so that birthdays do not get arbitrarily in the way.

Q143 Meg Hillier: You could be on the same qualification, could you not, either way, but you have to apply to different bodies, depending on the age of the student at the time they start the course.

Martin Donnelly: But we have a single point of contact for that process, as I understand it. We are faced with the fact that 16 to 18 comes from a slightly different set of policy requirements from 19-plus, but we are seeking to further simplify the apprenticeships system. There is a lot going on and I know that you are coming back to that in your Report next month.

Q144 Meg Hillier: So, in essence, because of the way policy is set—I am not making a party political point—age matters more than the individual qualification, and that is why there is the difference between apprenticeships. Actually, apprenticeships could be about age as well, but is that one of the reasons there is a difference?

Martin Donnelly: It is the case that if you are starting an apprenticeship below the age of 18, there will be wider educational issues that Ministers think it is right to look at, compared with if you are over 19, or indeed over 25.

Meg Hillier: But you still apply through one route for that funding.

Q145 Chair: Is this literacy and numeracy?

Peter Lauener: It is partly about English and maths.

Q146 Chair: You care about that, presumably, at 19, don't you?

Peter Lauener: It is partly about the length of apprenticeships, but the outcome of an apprenticeship framework would be the same. We also pay a lot more for a 16 to 18-year-old than for an older young person or an adult.

Q147 Meg Hillier: But you still apply through one route. As an FE college or someone wanting an apprenticeship, the funding would come through—

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Peter Lauener: All the money for apprenticeships goes through the National Apprenticeship Service, which is part of the Skills Funding Agency. The money is delegated to the National Apprenticeship Service.

Q148 Meg Hillier: Some money is from the DFE, some money is from BIS, and there is one route in. If you can do it for that, is policy the brake on having that seamlessness on other issues that cross the 18 to 19 age threshold?

Peter Lauener: It is probably helpful to say that before the money is passed to the National Apprenticeship Service, in terms of the parameters, the number of learners and the average unit cost, we try and ensure that those parameters are consistent across 16 to 18, so that we are not setting up unintended consequences from different funding systems.

Q149 Meg Hillier: Internally, you are doing that, but from the point of view of the person or college applying for the funding, it is much simpler, is it not?

Peter Lauener: From the point of view of a person going to a college, I do not think they know where the money comes from. They turn up and apply for a course. I actually think with both the YPLA and the Skills Funding Agency, it is difficult for the chief executives of those two organisations, as they are largely invisible to members of the public.

Q150 Meg Hillier: But for the college, there is quite a difference, applying one way or having to apply in this—especially with that cliff edge of age when you are on a course. When your age changes, your agency changes.

Peter Lauener: Again, I think I take a different view about how different it is from before, because the Learning and Skills Council operated four different funding blocks, and it was not the case in recent years that it was possible to move money from 16 to 18, to 19-plus. It is still the case, not least because of raising the participation age, that the Government have decided that the money for 16 to 18s has to be for 16 to 18s. When the college has got the money, there is no problem at all with them using that since the funding they have got is the funding they have got. They can put on a range of opportunities and have adults and young people studying together. So, in practice it is quite flexible.

Q151 Chair: We are almost at the close. May I just ask a few questions of Mr Donnelly? On page 11, paragraph 1.1, the Report says a milestone was set for November 2011. What was that? Did you achieve it?

Martin Donnelly: That was related to the publication of new challenges and new chances, I believe, setting out our new simplified structures.

Q152 Chair: Policy, not a milestone?

Martin Donnelly: It set out a roadmap to 2015—

Chair: A roadmap. Absolutely nothing.

Martin Donnelly:—for reducing our landscape, simplification, reducing bureaucracy, and removing regulation. It said what we would do in each year.

Q153 Chair: The Report also says that, if you had learned a little bit from the past, having a target incentivised the Departments. Why have you not done that? The Government have had this objective from day one, I would have thought. We are now getting on for beyond 18 months to two years in. Why have you not just set a target for reduction in bureaucracy? Why have you not just done that?

Martin Donnelly: Ministers are clear that they want a dynamic and deregulated sector. They do not think that—

Chair: Just answer the question please, Mr Donnelly.

Martin Donnelly: They do not think that setting targets is the most effective way to get that.

Q154 Chair: You have not set a target although experience shows, according to page 30, paragraph 3.9, that targets incentivise action. That is what experience shows. All we are looking at is the evidence, and this is doing it in an economic, effective and efficient way.

Martin Donnelly: There are a range of incentives. One of the incentives that this Government have put a lot of stress on is providing more freedom to the colleges to choose how they wish to respond.

Q155 Chair: How does that cut bureaucracy? How do you know that cuts bureaucracy?

Martin Donnelly: By removing central targets for colleges, for example, regarding what they have to teach, we have removed bureaucracy, and there is evidence from the colleges themselves—

Q156 Chair: But you cannot count it, and we cannot count it, so we don't know; and Mr Russell is not interested in counting it, so we have no idea whether or not it is cutting bureaucracy.

Geoff Russell: I think if you listen to colleges, they make it very clear that they welcome the change, and that they have benefited from it. So it may not be to the third decimal place, but I think any college in the land would say that the absence of targets has been extremely welcome.

Q157 Chair: Although we showed on this one that actually, a target to cut bureaucracy was effective.

Chris Shapcott: If I can just clarify something, when we are talking about a target, we are not talking about setting a target for the colleges themselves; we are talking about the Department setting an ambition for what it will achieve through its own action, and the earlier work, which was looking at the Department's regulation—

Q158 Chair: So why haven't you done that? Call it an ambition—I am really sorry; I will not use the word "target". I know it is banned.

Martin Donnelly: Ministerial policy is to increase the flexibility that the colleges have. They see that as a

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good thing in itself. We are also seeking to reduce bureaucracy, but that is not the only—

Q159 Chair: Mr Donnelly, it is terribly simple. We all want, all of us—this is non-contentious—£1.1 billion out of your current budget. That is a lot of money, which will impact on students. All we want to do is to do our best to make sure that it does not impact on students so that it comes out of elsewhere. I would have thought that an ambition, an objective, call it what you will—I don't give a toss what the name is—brought out of the back room, out of bureaucracy, would be sensible, and that if you set yourselves that ambition you might achieve it.

Martin Donnelly: We believe we have achieved a lot, and we have set out how we are going to achieve more.

Q160 Chair: We don't know, because none of us can count it.

Martin Donnelly: If I may just add to that, we have asked the sector-led Information Authority, which Geoff Hall chairs, to look at the burden that we are putting on colleges in 2011–12, which it can compare with 2008, and do it again in 2014–15.

Q161 Chair: Okay. That leads me to my other question. In your Department, you are also responsible for higher education. You are a bit ambivalent as to whether you are responsible for further education.

Martin Donnelly: We are responsible for further education for those over the age of 19. We are very clear about that.

Q162 Chair: No, no. We think you are responsible beyond that, but that will come out in our Report. You are responsible for higher education. I remember that there was a higher education regulation review group that did a lot of work in the first decade of this century, and in 2008 it was disbanded because it was decided that the best way of cutting bureaucracy was not to have you guys at the centre trying to do it, but to have the higher education world itself—the higher education institutions—running that exercise. As I understand it, it is owned by the sector and is doing quite a good job. Why haven't you in the Department learned from that experience, and replicated it here, rather than trying to run all this from your central agencies?

Martin Donnelly: What we are trying to do is precisely not to run it all from the central agencies with central targets—

Chair: You are.

Martin Donnelly: But to work with the 249 or so colleges and the 1,000 other providers to see how in practice we can reduce the level of administrative burden that we are putting on them.

Q163 Chair: I am sorry, Mr Donnelly, you have again misunderstood the question. I will try again. You have various working groups—there is huge detail here—on which Mr Lauener, Mr Russell and presumably members of their staff sit to try to reduce bureaucracy. What I am saying is that your

Department learned from higher education, disbanded a similar structure in 2008, and created a new structure called the better regulation group, which was not run by any agency of Government, but was run and owned by the sector itself, and is doing a good job. Why don't you learn from that good experience, and do a similar thing here? Stop trying to dictate it—even dictating how you disband from the centre—and allow it to be really run by the colleges themselves.

Martin Donnelly: The short answer is that they are very different sectors, and we are trying to deal with each of them in the most appropriate way.

Q164 Chair: I think if you learned from what worked, we might get further.

I will just make a final point. One of the interesting things for this Committee is that, as we get fragmentation of institutions, accountability as balanced against freedom and flexibility is a real challenge; that is really the point that Mr Russell was talking about. Our job is to protect the taxpayers' pound. I have not been given comfort in the hearing that you are really addressing that issue—you are aware of it, but I am not sure that you are addressing it—and that we will not be back here in two or three years' time saying, "Actually, this has gone horribly wrong"—learning from the individual learning accounts—and that, because of a particular political thrust, you are only looking at freedom and flexibility, and you are not thinking about accountability, so we will get mistakes and we won't be able to follow the taxpayers' pound.

Geoff Russell: I have a great deal of sympathy for that concern, but I would point out that it is completely contrary to this Report, which says that we are not reducing bureaucracy fast enough.

Chair: I know.

Geoff Russell: Because the two contradict one another, don't they? And you're right—they have to be balanced. That doesn't mean to say that we shouldn't try to reduce bureaucracy, but I couldn't agree with you more that we should do it in the most careful of ways.

Q165 Mr Bacon: May I ask Mr Donnelly a question? Actually, I am sorry—in the first instance, the Comptroller and Auditor General and probably Mr Russell may wish to comment about the CAG's adverse opinion on the Skills Funding Agency accounts. You say, CAG, that the basis for your adverse opinion is, to quote from your statement in the Report: "The Skills Funding Agency has not prepared group financial statements which consolidate further education colleges because it has not been able to collect the information required to do so and does not consider it cost effective to undertake additional actions in order to obtain the necessary information." The Report goes on: "Under International Financial Reporting Standards, further education colleges should have been consolidated because the Skills Funding Agency has control over them according to

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the criteria contained within International Accounting Standard 27. Had the further education colleges been consolidated, group financial statements would have been prepared and all elements in the financial statements would have been materially affected.”

You go on to say: “In my opinion, because of the significance of the failure to prepare group accounts which consolidate further education colleges... the financial statements do not give a true and fair view of the state of affairs of the Skills Funding Agency”. I know that Mr Russell will say—because he said it in the Report—that, in his view, this is an accounting issue, which had, in his words: “no wider impact on the control environment”. But could you, Mr Shapcott, just comment on the significance of this, and what you are expecting to happen in the future, before I invite Mr Russell to offer comment as well?

Chris Shapcott: My understanding is that there has been a legislative change in the Education Act 2011 recently, which will have a material effect on the accounts in the future. Clearly, it would be premature to comment on what that will be, but I think that the intention will be to help address this problem.

Amyas Morse: In other words, we may not be in a position when we are qualifying on this ground in future, because it may cease to be a requirement in the way that it has been.

Q166 Mr Bacon: Indeed. Paragraph 21 of your Report, CAG, says: “The Department is seeking to remove some of the powers over FE colleges”. I take it that that means some of the powers that it has over FE colleges, or does it mean some of the powers that you have? The Report goes on: “And this may have the impact of removing the accounting requirement for the Agency to consolidate the bodies in the future.” What I am really getting at is this—is this something that we should worry about, or is it of no consequence whatsoever?

Amyas Morse: No, I don’t think you should worry about it.

Q167 Mr Bacon: Right. Mr Russell, would you like to comment just briefly?

Geoff Russell: Financial reporting standards were applied nearly a couple of years ago. The rules changed. There is a debate about whether we should or should not consolidate, but it is the NAO’s final judgment. We chose not to, on the basis that it would have required an enormous amount of bureaucracy for each college to prepare a consolidation pack for us, and for us to consolidate it. We knew the changes to law were coming through. We just thought that the most cost-effective solution was to take a qualification to our accounts, and the accounts will also be qualified this year because, if the law does get changed, it won’t occur until—if we are lucky—the end of the financial year. For the bulk of the year, the same thing will be true this year as was true last year. So we will take another qualification and hopefully we won’t have to

do so again. Had we not taken that view, it would have run absolutely contrary to the Government’s bureaucracy reduction goal.

Martin Donnelly: May I also comment on this, because it does worry me as an accounting officer? It is not where we want to be, but I was clear, and the Treasury agreed, that this was the least bad place to be. We have now passed the Education Act 2011, which commences in April. That gives colleges greater financial freedoms and control over their own governance, all of which are material to this decision. We have put the arguments back.

I strongly hope that the decision will be made that we do not need to consolidate, because the additional bureaucracy cost—not just on us, but on the colleges, as Geoff said—would be great and would really imbalance the progress we have made so far. It is a very important issue for us, and one that continues to concern me.

Amyas Morse: Just to be clear, at the time of qualifying this, we really did not have the latitude to do other than qualify, but I do not regard it—

Q168 Mr Bacon: I understand. There was an issue that arose after the start of the accounting year, as you say in your Report. But, coming from a private sector audit background, it must have given you pause for thought that, had it been a private sector matter—

Geoff Russell: Not really, because with the greatest of respect, private sector accounts—

Q169 Mr Bacon: Because you knew the public sector was different, you mean?

Geoff Russell: Private sector accounts tend to be a little more important, for things like shareholders and bankers, than public sector accounts.

Q170 Mr Bacon: More important than—taxpayers?

Chair: Dear, dear!

Geoff Russell: Public sector accounts that are basically expenditure statements rather than performance—

Q171 Chair: Say that again?

Geoff Russell: They are expenditure statements rather than performance statements, so they tend to get less attention.

Q172 Mr Bacon: You mean they don’t have a P&L in quite the same way.

Geoff Russell: Well, they say what you spent; they don’t say a great deal about what you got for it.

Q173 Mr Bacon: That is why we have a value-for-money budget in the NAO.

Amyas Morse: Having said that, you actually may find that all changing a bit, Geoff, so just watch this space.

Geoff Russell: I very much hope so.

Chair: Thanks very much indeed.

Written evidence from the Department for Business, Innovation and Skills

HEARING ON REDUCING BUREAUCRACY IN FURTHER EDUCATION
MONDAY 30 JANUARY 2012 Q120 P29

At the Public Accounts Committee on Monday 30 January the Department (BIS) volunteered to provide a note to Meg Hillier's series of questions on how the Department measures the impact of funding changes. The note below details three interlinked areas: funding simplification; FE loans and fee policy.

ASSESSING THE IMPACT OF FUNDING SIMPLIFICATION

In July 2010, the Department (BIS) undertook a three month consultation with the FE and Skills sector to inform the development of a simplified funding system and methodology for post 19 training. Respondents broadly welcomed the ambition to simplify funding and reduce the number of data returns required for operating multiple budgets, but indicated that more detailed work was needed to ensure the impact of changes was fully considered.

An externally chaired Advisory Group, including sector representatives, is helping the Skills Funding Agency (the Agency) to look at the detail. Taking account of the sector's views, the Agency will publish shadow funding rates and funding formula prior to the start of the 2012–13 academic year. This will enable all FE colleges and providers to test and feedback on the impact of the revised system to inform the finalised system being implemented in the 2013–14 academic year. Through their Whole College View project the Agency will be measuring how changes implemented so far have impacted and what further burdens remain.

ASSESSING THE IMPACT OF THE INTRODUCTION OF FE LOANS ON THE FE SYSTEM

In August 2011, BIS undertook a three month consultation on the implementation of FE Loans, this included a specific question on how to minimise the bureaucracy associated with their introduction. Building on feedback, BIS is working with the sector on the development and design of FE Loans to ensure a straightforward system that operates alongside grant funding. This includes the development of a light-touch approach to information management, freedom for providers to manage their allocation from the loans budget (with appropriate financial controls) and, where possible, using existing administrative systems for HE student finance.

ASSESSING THE IMPACT OF WIDER CHANGES TO FUNDING RULES (INCLUDING ACTIVE/INACTIVE BENEFITS AND ESOL)

The Skills Investment Statement, published each autumn, confirms 19+ funding policy in time for FE colleges and providers to plan activity for the next academic year, and is consistent with the Government's Skills Strategy (November 2010) and Reform Plan (New Challenges, New Chances, December 2011) which were both developed with input from the sector, including the FE Reform and Performance Board.

Only by exception are changes made after the Skills Investment Statement is published, for example, to respond to Budget announcements. In the case of the funding rules for unemployed learners, the policy to prioritise government funding on those closest to getting a job remained, but based on feedback from the sector, FE colleges and providers were given increased flexibility in identifying who those learners were. BIS recognised that announcing this change after the Investment Statement had been published could cause difficulties for colleges and providers, but decided, on balance that it would be better to provide the increased flexibilities called for by the sector to ensure the original policy could be delivered.

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