



House of Commons Science and Technology Committee

**Spend, spend, spend? – the
mismanagement of the Learning and
Skills Council's capital programme in
further education colleges:
Government Response to the
Innovation, Universities, Science and
Skills Committee's Seventh Report of
Session 2008–09**

**Sixth Special Report of Session
2008–09**

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The Science and Technology Committee

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Sixth Special Report

On 17 July 2009 the Innovation, Universities, Science and Skills Committee published its Seventh Report of Session 2008–09, *Spend, spend, spend? – the mismanagement of the Learning and Skills Council's capital programme in further education colleges* [HC 530]. On 29 September 2009 the Committee received a memorandum from the Government which contained a response to the Report. The memorandum is published as an appendix to this Report.

Appendix: Government response

Introduction

In 2001, the newly established Learning and Skills Council (LSC) took over an ongoing programme of capital works in the further education sector. The programme was needed to renew an estate that was too large, with much of it in poor condition and no longer fit for modern educational purposes, affecting the reputation of the sector. By March 2008, a total of £4.2 billion of projects had been approved 'in detail', including grant support from the LSC of £1.7 billion. To date about half of the estate has been renewed.

The Government will invest £1.7 billion over this Spending Review period transforming the estate for learners. Nearly 700 projects in 330 colleges throughout England have been completed or agreed. This year's budget will be supporting 178 projects. These projects will be at varying stages of development; ranging from those which are just beginning on site to those which completed this summer in time for the new academic year. In addition to these projects, a further 30 are to start building shortly which includes the 12 projects announced on the 28 August earlier this year.

By December 2008, it was determined that more schemes were in preparation than could be funded in this spending round. Sir Andrew Foster was appointed to conduct an independent review and reached the view that 'a good policy had been compromised by the manner of its implementation'. Sir Andrew Foster went on to conclude that the policy intent to transform the FE estate was clear and positive, but that the implementation did not include a robust financial strategy or a regional or national approach to prioritisation.

Before these problems arose, the programme had achieved a great deal: an overall reduction in the size of the estate, improved quality of the buildings and a contribution to increased learner participation. The Government's investment has genuinely transformed the provision available to learners and employers in communities up and down the country. There is wide consensus regarding the aims of the policy, including from Sir Andrew Foster, who said in his report that the FE Capital programme is a "good policy" that has delivered "benefits for countless students, staff and communities".

The Department for Business, Innovation Universities and Skills (BIS) is continuing to take forward the Foster recommendations to ensure that lessons are learned regarding the overall financial management of both the LSC and all of BIS's arms length bodies.

In response to Foster, a dedicated project management group across both the LSC and BIS has been established, ensuring close, joint working. In addition, open and early consultation has been held with the sector, leading to the introduction of needs-based prioritisation that has enabled the most urgent capital projects to begin this summer. The LSC has built up extensive information about all capital schemes, including an audit of all capital commitments. The LSC has also developed a robust forecasting model, and is in the process of introducing new measures to strengthen the financial management of the programme. Work continues to ensure transition to the new arrangements is as smooth as possible, and is underpinned by a substantial programme. Through these measures BIS has confidence that the programme is now on a firm footing for the future and that the previous problems with the programme will not be repeated.

The LSC has strengthened financial controls in a number of ways. A particular focus of this work has been to ensure that the right relationship exists between the centre and the regions of the LSC and that processes are in place for escalating rapidly to senior BIS officials any financial issues or failure of control.

BIS recognises the importance of achieving effective delivery through partners. BIS will take into account the conclusions of the NDPB review conducted by the then Permanent Secretary, Ian Watmore of the Department for Innovation, Universities and Skills, in determining the nature of approach that BIS should adopt to its sponsorship responsibilities. Taking forward this work, BIS wishes to ensure that the improvement in processes and systems are applied across BIS on a systematic basis for all delivery partners, integrating all the good practice already identified.

Response to the Conclusions and Recommendations

Building Colleges for the Future and the 2009 Foster Review

1. We commend Sir Andrew Foster for his thorough review of the FE capital programme and his perceptive description of events in 2008 and 2009. We have drawn on his work throughout this report. (Paragraph 18)

The Government and the LSC have accepted Sir Andrew Foster's recommendations in full and as described later, are making good progress in implementing them.

The Capital Affordability Review: failure of management systems

2. We conclude that the treatment of the February 2008 Capital Affordability Review demonstrates what was going wrong both within the LSC and between the LSC and DIUS. There were failures in communication within and between the two organisations and a shared—but flawed—assumption was formed that this was an in-year issue that had no long-term implications. A central element in this was the failure of the LSC's then Chief Executive and Chairman to have a process where they regularly considered the future direction of a key programme which was to consume up to 9.2% of the LSC's total budget by 2009–10. (Paragraph 33)

3. The unprecedented level of capital expenditure on the FE estate between 2005 and 2008 can be regarded as a great achievement by the Government and by the LSC. On

the basis of the 2009 Foster Review and the evidence we have taken we conclude that there was a catastrophic mismanagement of the LSC capital budget during 2008 and neglect of oversight by those in the most senior positions in the LSC. The fact that the situation changed quickly does not excuse the lack of recognition of crucial warning signs, in particular the February 2008 Capital Affordability Review. (Paragraph 40)

Recognising the deficiencies in how the LSC had managed the programme, its former Chief Executive, Mark Haysom, resigned on Monday 23 March 2009. Geoff Russell was appointed as acting Chief Executive on the same day.

Under the new leadership of Mr Russell, a dedicated project management group across both the LSC and BIS has been established fostering close, joint working. The LSC has also developed a robust forecasting model, and is introducing new measures to strengthen the financial management of the programme. Through these new arrangements, the LSC—and its successor, the Skills Funding Agency (SFA)—will manage the capital budget with far greater precision, and will be in a position to identify and act upon any warning signs.

The LSC has improved its risk management procedures. Overall responsibility for risk management is now the responsibility of all Directors and a monthly Performance Report has been developed to align personal programme responsibility (rather than committee responsibility) with delivery/budget data and the identified risks to performance. A weekly horizon scanning process has been implemented where each regional and national Director reports emerging risks that are shared with all senior management and also fed into the Performance Report. The Performance Report goes to the Management Group, the National Council and to BIS.

Lack of a prioritisation mechanism

4. The evidence we took revealed a strange world in which staff at the LSC believed prioritisation would not be needed in the short to medium term because the programme had historically been underspending. Hence they could defer difficult decisions, for example on how to rank projects within and across regions, to someone else—perhaps the LSC's successor organisations. But this meant that the programme in the end operated on a first-come, first-served basis, with no consideration given either to need or wider departmental or government policy objectives. Some colleges received funding for iconic buildings when something much cheaper would have served perfectly well. Other worthy projects, perhaps in areas of greater deprivation, will now not be funded at all. (Paragraph 49)

5. This should not have happened and must not happen again. We recommend that it should be a requirement for all national capital programmes to have an agreed mechanism for prioritisation built in to them from the start, even if they initially under spent. In this case the perceived need within the LSC to "use or lose in-year budgets" was a key factor in the Council's decision to seek to build up demand in the early stages of the programme, a build-up which proved impossible to manage. Consideration should be given to how to mitigate the tendency to focus on in-year budgets and therefore make short-term decisions, for example enabling greater flexibility to carry-over funds in the early stages of a programme to ensure that growth is managed sustainably. (Paragraph 50)

There was a clear budget for the capital programme. It was the LSC's responsibility to manage within it. The programme had clear criteria for assessing proposals coming forward. These included national and regional priorities, as well as the educational case and value for money. It was the absence of effective financial forecasting and control that led to the failure to spot the gap between demand and supply as quickly as it should have.

Following the recommendations set out in Sir Andrew Foster's report, a clear process for allocating the additional funding and the ongoing management of the programme was developed. This included employing consultants to gain robust information on all existing commitments and project costs. Consultants PricewaterhouseCoopers were also employed to carry out a prioritisation exercise based on criteria agreed with the Association of Colleges reference panel. On Friday 26th June 2009 the LSC announced, after a prioritisation process which had been agreed with the sector, 13 colleges would proceed to the next stage - a cost reduction exercise. Successful negotiations have now completed and it has been announced that the thirteen college capital projects had been given final approval and that construction would begin immediately.

A prioritisation mechanism will also be applied to all future investment decisions – subject to further consultation with the sector. The current intention is to consult with the sector this autumn to produce a mechanism for deciding how best to move forward in the next spending round, dependent upon the level of investment secured. All decisions on existing and future projects have been made taking into account the affordability and impact across the whole life of the project and spending periods.

Role of LSC in liaising with the regions

6. We conclude that the senior management of the LSC made two significant mistakes in dealing with the regions during 2008. They should have been consulting Regional Directors much more frequently about the programme to establish likely overspends, whether or not they were aware at the time of the Edwards report and its implications, and Regional Directors should have been given a responsibility to monitor and report on the number of projects coming through the system. (Paragraph 54)

It is clear that there was insufficient financial control within the LSC of the capital programme. Geoff Russell, on taking up post as acting Chief Executive in March 2009, took a number of actions to ensure greater accountability and control. He appointed David Hughes as National Projects Director - making him directly responsible and accountable for the capital programme. He implemented robust forecasting and budget control and also ensured the approval process was more centralised with all projects now being approved by the Capital Committee and the National LSC Council.

BIS and the LSC have also already strengthened financial controls in a number of ways. A particular focus of this work has been to ensure that the right relationship exists between the centre and the regions of the LSC. Moving forward, the new Skills Funding Agency will benefit from a number of structural and procedural qualities that mark it out from the LSC, and demonstrate material improvements in the environment for risk management. As opposed to the LSC, structurally the Skills Funding Agency will be a nationally consistent organisation, with centralised funding systems which will ensure the easy availability of comprehensive and correct budget reports.

Risk management

7. The fact that the LSC's weak risk management system was being addressed as these events were unfolding, and that even as a result of this the capital programme was not identified as a major potential problem is astounding. In this context we repeat our criticism that DIUS did not place key risks it had identified in its Accounts—including poor risk management at the LSC—in its 2008 Departmental Report. (Paragraph 63)

BIS and the LSC has strengthened financial controls in a number of ways and has reviewed interaction between BIS and the LSC. Following the Foster Report, strengthened arrangements have been put in place for risk management. Overall responsibility for risk management is now the responsibility of all Directors and a monthly Performance Report has been developed to align personal programme responsibility (rather than committee responsibility) with delivery/budget data and the identified risks to performance. A weekly horizon scanning process has been implemented where each regional and national Director reports emerging risks that are shared with all senior management and also fed into the Performance Report. The Performance Report goes to the Management Group, the National Council and to BIS.

The reason for the difference between the risks recorded in the Departmental Report and those set out in the Statement on Internal Control in the Annual Resource Accounts is that the former seeks to identify the most significant strategic risks that the Department will need to manage to meet its objectives, while the latter records specific issues of internal control that have already been identified. The Departmental Annual Report 2009 sets out the strategic risks facing the Department at page 99, which included the broader risk of weaknesses in governance arrangements with delivery partners that could fail to identify and address poor performance or delivery failure in the supply chain.

The role of the National Council and the Chairman of the LSC

8. We note the points made by Chris Banks about the position of the LSC Council and his own position as Chairman of that Council. While the LSC Council delegated responsibility for management to the executive team it retained a responsibility to provide high-level oversight, set overall strategy and to challenge and question what the management team were doing, and the Chairman of the Council should have been leading the Council in achieving this. The Chairman and the Council clearly failed in this oversight during 2008. (Paragraph 69)

Sir Andrew's report is clear that "the most significant responsibility for these problems rests with failures in the general management and financial management of the LSC." That is why it was right for the Chief Executive to take primary responsibility for what was a management failure. The report does also comment on governance, risk management, and the role of the Council. The Chairman and Council members will be reviewing lessons learnt, in order to strengthen corporate governance for the future and ensure that these problems cannot recur.

The new Skills Funding Agency will benefit from a number of structural and procedural qualities that mark it out from the LSC, and demonstrate material improvements in the environment for risk management. As opposed to the LSC, structurally the Skills Funding

Agency will be a nationally consistent organisation, with centralised funding systems which will ensure the easy availability of comprehensive and correct budget reports.

The Skills Funding Agency will be part of BIS, and there will be clear governance, accountability and management chains from BIS to the Chief Executive of Skills Funding. This means there will be shorter timescales between the identification of risks through a clear escalation route and the implementation of consistent mitigating action.

Communications between the LSC and colleges

9. The extent to which individual colleges were urged to increase the scale of particular projects may be a matter of some debate between the LSC and the colleges themselves. But given the historically cautious expectations of the majority of the FE sector, it is in our view highly unlikely that colleges would have "bigged up" their projects without direct encouragement from regional officers or national directors at the LSC. The evidence appears more than anecdotal that LSC was encouraging bigger and bigger schemes to come forward: the use of phrases such as "once-in-a-generation opportunity" and "a strong association between new buildings and high achievement" was irresponsible and bound to build up excess demand that could not be satisfied and the LSC as a whole, and those individuals involved, should accept responsibility for this. (Paragraph 77)

Sir Andrew Foster says that in some cases the LSC has actively encouraged colleges to be increasingly ambitious and this, coupled with past experience of success at in-principle approval being followed by success at detailed approval, may have led to colleges progressing their projects far too quickly. Sir Andrew says that colleges may have put too much store by success at in-principle approval as a result and more could have been done to correct this. As part of the work in putting the programme back on a stronger footing the LSC now has complete oversight of the affordability all projects across their lifetime which includes having robust management information on all projects at the Application in Principle Stage.

DIUS oversight of the LSC

10. We ask the LSC and DBIS to clarify the remark made in the minutes of the LSC External Advisory Group meeting in September 2008 that Ministers were considering risks associated with the FE College Capital programme. (Paragraph 84)

The discussion minuted at the External Advisory Group meeting related to concerns about the impact of the economic downturn on the introduction of the new Skills Capital Funds for non-college providers. With increasing numbers of unemployed, demand for skills training was expected to increase. However, with the economic downturn, the ability of private providers to contribute to capital projects was going to be limited. The upshot – and risk under consideration by the then DIUS Ministers – was the potential over-demand by private providers on the small dedicated fund introduced to address specialist facilities in non-college providers.

11. Lessons must be learned by DBIS and across Government from the events at the LSC in 2008. DIUS clearly failed in its oversight duties. As we noted earlier in this

Report the same management problems that befell LSC were also there in DIUS—a key official did not report back to more senior staff about the Capital Affordability Review; there was a wider lack of challenge; and a total failure to pick-up messages from the sector (or apply common sense) about the scale of commitments which were being made. (Paragraph 87)

12. The then Secretary of State told us that "the theory of NDPBs when they were first set up, that they protect ministers from the political flack when things go wrong, does not appear to work as well as some of us might have liked [...] My conclusion is you should use NDPB's where they are necessary, but not otherwise." Events at the LSC show that NDPB's can diffuse political and financial accountability to such an extent that serious problems are not identified or addressed and responsibility for failure is at best unclear. In this case the situation was made worse by the prospect of the NDPB being wound-up; the Department should have realised that this could affect operations and ensured that its oversight was effective. We conclude that a review of the operation of NDPB's not just across DIUS (now DBIS) but the whole of Government is urgently required. (Paragraph 88)

BIS has made good progress implementing of all the Foster recommendations. This has included the change from a demand based capital process, to a needs based capital process. A joint dedicated project team was put in place, which has strengthened the ability to monitor and challenge the LSC, whilst also working alongside them. The LSC has also taken on board the Foster recommendations, and has introduced new management arrangements.

Following the Foster report John Denham asked Ian Watmore to carry out a review of DIUS's relationships with arms length bodies to ensure clarity about accountability and responsibility. The review made a number of recommendations, designed to strengthen management information and oversight arrangements on key delivery programmes; clarify internal roles and respective roles between DIUS and its arm's length bodies; improve consistency of approach within DIUS to aid identification of the key delivery risks; support ongoing work to build professional capacity in the Department's sponsor teams; and improve the rigour of sponsorship arrangements. In sharing the report with Phil Willis, Chairman of the Innovation, Universities, Science and Skills Committee, it was confirmed that the review's conclusions would be taken into account in determining the nature of the approach that BIS should adopt to its sponsorship responsibilities.

This work is ongoing and will be shared with other Departments in due course. It will be integrated with the good practice already identified and will be synthesized into a single process for BIS. One of the main purposes of this work is to ensure that, at every level of the BIS there are proper processes and systems in place to manage risk on a proportionate basis, to engage with our delivery partners and to elevate issues when appropriate.

13. As far as we can see DCSF was a silent partner in this situation, though it is clear that within the LSC the splitting of the capital budget was regarded as a critical factor in making management of the programme more difficult. We note the points made by the 157 Group about the possible transfer of some projects to the Building Schools for the Future programme and urge DBIS and DCSF to work together to establish whether this is an appropriate way forward. We also recommend that the proposal for a single

college capital budget using pooled DCSF and DBIS funds is investigated with the outcome of the review reported to Parliament in the form of a Written Ministerial Statement. (Paragraph 93)

In the White Paper *Raising Expectations: Enabling the System to Deliver* a commitment was given that those colleges that designate as legally distinct sixth form college corporations would be eligible to access sources of capital funding – including Building Schools for the Future - via the local authority. It is also the Government's intention to proceed with a single capital fund for all general FE colleges which would be administered by the Skills Funding Agency.

It is proposed that there continues to be a single-track approval process for FE capital projects, and that a joint process is created between the YPLA and the Skills Funding Agency to scrutinise and decide on all proposals for FE modernisation covering 16–19, including FE modernisation proposals and capital proposals from other work-based learning providers that are delivering publicly-funded provision, for example in support of apprenticeships.

Discussions about final arrangements are ongoing.

The NAO report in July 2008

14. We conclude that, while the NAO rightly identified some of the issues in its July 2008 Report, the facts that the report (1) did not give a sense of the urgency with which a prioritisation mechanism was required and (2) did not put the problem in the context of poor risk management diluted its impact. The fact that paragraph 14 of the Report's Summary addressed prioritisation in the context of the completion of the programme by 2016 by the LSC's "successor bodies", alongside the positive tone of the press notice, pandered to the view that was then prevalent within the LSC that prioritisation was a medium and longer-term problem, not something that had to be done immediately. (Paragraph 102)

15. Given the seriousness of the mistakes that were made the NAO report appears in hindsight to be surprisingly positive: we find it hard to reconcile the fundamental problems that became apparent with LSC's capital management, in particular the lack of national prioritisation and planning for this high-cost, high-profile programme, with the tone of the report. This is all the more surprising given that the NAO had sight of the Capital Affordability Review. We conclude that if the NAO had produced a more hard-hitting report in July the worst of the over-commitment would have been averted. (Paragraph 103)

The conclusion is noted, but is not for this Department to comment upon.

Next steps

16. As it turns out 2008 was indeed a once-in-a-generation opportunity for FE capital expenditure, though not in the way that the LSC and DIUS intended. We are now left with a situation in which funding is scarce and worthy cases cannot be prioritised. Out of over 180 projects submitted to the LSC—of which a significant proportion had

received Approval in Principle—only 13 have proceeded to the next stage of consideration. Even they have all been asked to "substantially reduce the cost and scope of their projects and review other sources of funding". For the others there is "no prospect of getting their projects funded this CSR." (Paragraph 120)

17. This is a difficult situation for all concerned. LSC is making its best efforts to address this prioritisation in a fair way but given the inadequacies of the demand-led process our inquiry has identified, we believe the prioritisation and criteria on which future funding should be committed should take account of all factors relevant to the bids available. This includes the impact of the capital project on the added value of the college's programmes and the vocational development of its student body as well as the impact of the project on the regeneration of the area in which it sits as well as the potential areas from which it recruits its students not simply the chronological status of bids at the time the programme was put on hold. We therefore have concerns about the application of the readiness gateway which we do not believe should be applied in the future when making decisions about funding. (Paragraph 121)

Projects going forward in this spending round were scored against the following prioritisation criteria:

- Education and skills impact
- Contribution to local economic and regeneration priorities
- Co-dependency with 3rd parties
- Condition of estate
- Value for money.

Similar criteria will be used in future, subject to further consultation with the sector.

In support of Government's fiscal stimulus policy to help kick-start the economy, the 'readiness to proceed' criterion was introduced into the approvals process. BIS does not anticipate using 'readiness' as a criterion in the future, it cannot be ruled it out in case of a similar national economic situation arising, where such stimuli could once again be usefully employed.

18. LSC must move to a position where it can show its working on the extent to which the existing budget is committed, the value of projects being considered and how projects have been evaluated. It is particularly disappointing that the announcement of further delays was made only two days before the long-anticipated 3 June Council meeting and we recommend that LSC immediately takes steps to set out the timetable for the remainder of the evaluation process. (Paragraph 122)

The LSC and BIS have put together a joint programme team who have worked closely over recent months to ensure the information held on the capital programme is rigorous. Independent consultants have thoroughly audited all the financial information which has enabled payment profiles of all commitments to be developed across the life time of all existing commitments. The LSC also employed independent property specialists to assess

all projects which have led to a detailed understanding of the cost incurred in developing bids.

The LSC appointed consultants also made a series of recommendations to improve LSC processes and systems, providing an improved degree of transparency and assurance. The processes that have been introduced will ensure:

- secure financial management of the programme;
- the ability to map in-year and forward forecasting of expenditure;
- expectations of funding within the sector can be assessed; and
- priority of learning and skills outcomes are supported.

For colleges not selected to proceed this year, the next steps will start this autumn when the LSC will further consult with the sector to agree a robust, fair and transparent process for prioritising the capital investment programme for the next Spending Review period, starting in 2011–12. The size and scope of the programme will depend on the outcome of the next Spending Review.

19. The commitment that "no college will become insolvent as a result of capital project delays" does not go far enough. DBIS will now need to work with the LSC to ensure that compensation arrangements for sunk costs are settled as a matter of urgency and the presumption must be that those colleges which incurred significant expenditure moving from Approval in Principle towards Approval in Detail have those costs fully reimbursed. Funding for this should not be top-sliced off the overall capital budget. (Paragraph 134)

The policy decision about how sunk costs would be treated had already been made by the time the Select Committee's report had been published. It has been agreed that the LSC will reimburse all costs it had committed to under its fee support arrangement. In addition, the LSC will ensure that no college will be allowed to become insolvent as a result of decisions taken on the capital programme.

The LSC has a long-standing, understood and published position of fee support for colleges developing their capital proposals. It will honour all fee support due under that policy. In this way it has already provided substantial support to colleges in meeting the costs of developing projects. It has been clear that it will pay colleges any contributions to development costs which were previously agreed but remain outstanding.

20. The Department and the LSC should be making every effort to help those colleges which will not receive funding in this spending round. We therefore endorse the proposal by the Association of Colleges for a small amount of government funding to support colleges in raising alternative finance for their projects and welcome the announcement by the LSC of the creation of a small projects fund. We see the potential involvement of HEFCE as particularly relevant given the ever-increasing amount of HE delivery via Further Education and the growing convergence between Higher Education and FE in the future for which the Capital building programme is designed. We also see considerable potential to involve local authorities in some projects, given firstly the role of FE colleges in local regeneration and skills development, secondly, the

access local authorities have to capital funding, and, thirdly, the authorities' role in 16–19 provision from 2010. Furthermore, colleges should be assisted to share best practice and contacts or to reduce the overall cost of their projects through shared use or redesign. We recommend that funding both for an innovation fund and for small projects is not contingent on the successful 13 Colleges making savings and is not 'top-sliced' from the LSC capital budget. (Paragraph 140)

In the letter from Geoff Russell to all college principals on the 23rd April he said “*there may also be situations where colleges may decide to simply ask for more modest sums to refurbish.*” The projects which were ultimately selected were done so without prejudice but were selected using open and transparent criteria which were agreed with the sector. Subsequently, the Association of Colleges has established a Task Group, which is being supported by both LSC and BIS; to look at alternative sources of funding. The LSC already has a relationship with HEFCE in terms of capital responsibilities. Under the new arrangements, the local authority will have a key role in the administration of capital where it affects 16–19 learners.

Conclusions and wider implications

21. How the LSC now deals with Train to Gain and Adult Apprenticeship funding, where it is again having to introduce additional prioritisation because of potential over commitment, will need to be monitored closely. We recommend that the new Business, Innovation and Skills Committee maintains our scrutiny of this policy area. (Paragraph 144)

We note this recommendation however it is for the Select Committee to take forward. Both the Department and the LSC has introduced new mechanisms to determine priorities and these will be documented in the Skills Investment Strategy published later this year.

22. There is an ongoing tension between demand-led and needs-based provision which needs to be resolved between the LSC and DIUS (now DBIS) and across government more widely. The Secretary of State for Children, Schools and Families and the then Secretary of State for Innovation, Universities and Skills told the LSC Council in April 2009 that they wanted "informed demand" rather than prioritisation on a "first come first served" basis. We ask DBIS to set out precisely what is meant by "informed demand", and how this links to the way in which the LSC and the new Skills Funding Agency and Young People's Learning Agency will manage their programmes. (Paragraph 148)

The introduction of prioritisation criteria was in response to the need to create ‘informed demand’. This is the rational direction to take when fiscal circumstances are such that the goals of meeting all suitable demand became impractical. The criteria enabled us to ensure only those projects which best delivered against our policy agendas would proceed. Overall the sector needs to respond to learner need but all programmes need to be monitored. To achieve this, the LSC asked independent consultants to review all commitments and have in place robust financial arrangements. The LSC also went through a process of prioritisation to select the most urgent projects which were to progress this spending period.

23. The programme of capital investment in FE Colleges has greatly benefited some colleges, communities and students but in a haphazard manner. We conclude that both DIUS and the LSC are jointly liable for not recognising the weak points of a capital programme which suffered from no overall budget and poor management information, but which was being heavily marketed by the LSC to Colleges. A heinously complicated management structure within the LSC and the approaching Machinery of Government changes bred a lack of responsibility and gave an air of distraction. Everyone wanted this laudable programme to succeed and so failure became unthinkable. Mark Haysom alluded to this when he said "why was the capital programme not on the risk register? I think, well, I know, because it was seen to be a success, that flipping into, in record time, a situation of over-demand was not seen to be an issue on the radar. I am sorry, but it was not." (Paragraph 150)

The Government accepts that mistakes were made in the management of the capital programme and is committed to implementing all the Foster recommendations. The Department fully recognises the importance of ensuring a smooth transition of the capital programme to the successor bodies, and has in place a robust and substantial programme to oversee this work. The LSC has moved to a simpler organisation structure that requires personal rather than diluted responsibility. It also has strengthened its risk management processes.

The new Skills Funding Agency will benefit from a number of structural and procedural qualities that mark it out from the LSC, and demonstrate material improvements in the environment for risk management. As opposed to the LSC, structurally the Skills Funding Agency will be a nationally consistent organisation, with centralised funding systems which will ensure the easy availability of comprehensive and correct budget reports.

The Skills Funding Agency will be part of BIS, and there will be clear governance, accountability and management chains from BIS to the Chief Executive of Skills Funding. This means there will be shorter timescales between the identification of risks through a clear escalation route and the implementation of consistent mitigating action.

24. We believe that the greater the freedom given to arms-length agencies by Government departments to carry through major public expenditure programmes, the greater the obligation on the senior management of those agencies to observe due diligence over internal reviews of that expenditure. That includes being proactive in flagging up potential major resource problems to the sponsoring Government department. It is clear that this was not done in the case of LSC and DIUS. It is, above all, a sorry story of management within the LSC compounded by failures of government oversight within DIUS which is likely to cost hundreds of millions of pounds. (Paragraph 151)

BIS and the LSC have also already strengthened financial controls in a number of ways. A particular focus of this work has been to ensure that the right relationship exists between the centre and the regions of the LSC and to ensure that processes are in place for escalating rapidly to senior BIS officials any shortcomings of failure of control.

BIS has also recognised the importance of achieving effective delivery through partners. BIS will take into account all of the conclusions of the NDPB's review conducted by the

then Permanent Secretary, Ian Watmore, in determining the nature of approach that BIS should adopt to its sponsorship responsibilities. Taking forward this work, the Department wishes to ensure that the improvement in processes and systems are applied across the department on a systematic basis, for all delivery partners, integrating all the good practice already identified.

25. Looking forward, the decision-making structure will shortly become even more complicated as the number of organisations involved increases from three (LSC, DIUS, DCSF) to five (Department for Business, Innovation and Skills, DCSF, Local authorities, Skills Funding Agency, Young People's Learning Agency). Both the transition to these new arrangements (which will be led by a new Department) and the new arrangements themselves have the potential to repeat and compound all the problems we have identified throughout this report. The new Department for Business, Innovation and Skills and the new management of the LSC must ensure that this does not happen. (Paragraph 152)

BIS fully recognises the importance of ensuring a smooth transition to the successor bodies, and has in place a robust and substantial programme to oversee this work. The new arrangements for the SFA will mean a demand-led system responding to the actual choices made by individuals and employers. The SFA will route around £4 billion of funding swiftly, efficiently and securely to FE colleges, private providers and the Third Sector.

BIS fully accepts the need to ensure management of the programme is not put at further risk, and will ensure recommendations and conclusions from all relevant reports recently carried out on the programme will be taken onboard. The administration of the capital programme under the new Skills Funding Agency will follow the principles as set-out by Sir Andrew Foster.

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 2008–09

First Report	Re-skilling for recovery: After Leitch, implementing skills and training policies	HC 48-I (HC 365)
Second Report	The Work of the Committee 2007-08	HC 49
Third Report	DIUS's Departmental Report 2008	HC 51-I (HC 383)
Fourth Report	Engineering: turning ideas into reality	HC 50-I (HC 759)
Fifth Report	Pre-appointment hearing with the Chair-elect of the Economic and Social Research Council, Dr Alan Gillespie CBE	HC 505
Sixth Report	Pre-appointment hearing with the Chair-elect of the Biotechnology and Biological Sciences Research Council, Professor Sir Tom Blundell	HC 506
Seventh Report	Spend, spend, spend? – The mismanagement of the Learning and Skills Council's capital programme in further education colleges	HC 530 (HC 989)
Eighth Report	Putting Science and Engineering at the Heart of Government Policy	HC 168-I
Ninth Report	Pre-appointment hearing with the Chair-elect of the Science and Technology Facilities Council, Professor Michael Sterling	HC 887
Tenth Report	Sites of Special Scientific Interest	HC 717
Eleventh Report	Students and Universities	HC 170-I

Session 2007-08

First Report	UK Centre for Medical Research and Innovation	HC 185 (HC 459)
Second Report	The work and operation of the Copyright Tribunal	HC 245 (HC 637)
Third Report	Withdrawal of funding for equivalent or lower level qualifications (ELQs)	HC 187-I (HC 638)
Fourth Report	Science Budget Allocations	HC 215 (HC 639)
Fifth Report	Renewable electricity-generation technologies	HC 216-I (HC 1063)
Sixth Report	Biosecurity in UK research laboratories	HC 360-I (HC 1111)
Seventh Report	Pre-legislative Scrutiny of the Draft Apprenticeships Bill	HC 1062-I (HC (2008–09)262)
First Special Report	The Funding of Science and Discovery Centres: Government Response to the Eleventh Report from the Science and Technology Committee, Session 2006–07	HC 214
Second Special Report	The Last Report: Government Response to the Thirteenth Report from the Science and Technology Committee, Session 2006–07	HC 244
Fourth Special Report	Investigating the Oceans: Government Response to the Science and Technology Committee's Tenth Report of Session 2006–07	HC 506 [incorporating HC 469-i]