House of Commons

Public Accounts Committee

Renewing the physical infrastructure of English further education colleges

Forty-eighth Report of Session 2008–09

Report, together with formal minutes, oral and written evidence

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The Public Accounts Committee

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Summary

In 2001, the newly established Learning and Skills Council ('the Council') took over a 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. By March 2008, a total of £4.2 billion of projects had been approved 'in detail', including grant support from the Council of £1.7 billion, and about half of the estate had been renewed.

Since April 2008 there has been a very serious failure in the management of the programme, with the Learning and Skills Council failing to introduce measures to prioritise projects and control the total cost of the programme. It approved 'in principle' 79 colleges' projects, which required nearly £2.7 billion of Council funding more than it could afford. Following an independent review, the Department for Innovation, Universities and Skills ('the Department') and the Council have applied needs-based criteria to inform decisions on taking the programme forward.

Before the current problems arose, the programme had achieved some successes. The joint funding approach makes use of colleges' reserves, access to secured loans and disposal of surplus assets, together with grants from the Council. It has enabled the estate to be reduced in size, and the buildings are generally of good quality and are contributing to increased learner participation.

The economic downturn could affect colleges' ability to fund projects by restricting their access to loan finance or their ability to sell surplus assets. The indebtedness of the sector is rising. Whilst the overall level of debt remains affordable, the Council needs to monitor closely the financial health of some colleges, particularly those that have borrowings that exceed 40% of their annual income.

In 2010, the Council is expected to be dissolved and its functions taken over by the Skills Funding Agency and the Young People's Learning Agency. There needs to be clarity about responsibilities for the capital programme, and additional administrative burdens on colleges must be avoided.

On the basis of the Report by the Comptroller and Auditor General,[1] the Committee took evidence from the Department for Innovation, Universities and Skills and the Learning and Skills Council on progress on the programme of renewal of the physical infrastructure of further education colleges in England.

1 C&AG's Report, *Renewing the physical infrastructure of English further education colleges*, HC (2007–08) 924

Conclusions and recommendations

1. **Much of the estate inherited by the further education colleges on incorporation in 1993 was in poor condition and not fit for modern educational purposes.** In 2001, the newly formed Learning and Skills Council started to expand its predecessor's capital programme for colleges, and by 2008 about half of the further education estate had been renewed. The programme has stimulated capital investment, and completed schemes generally provided good value for money at the time when the flow of projects had been manageable, although some regions have seen more investment than others and more consideration could have been given to environmental sustainability.

2. **There has been a very serious failure in the management of the programme, with the Learning and Skills Council over-stimulating the demand for funding and mismanaging the approval process.** The Council was reckless in allowing colleges' expectations of financial support to build to levels far in excess of what the Council could afford. From April to December 2008, it approved projects that anticipated Council funding totalling £2.4 billion (including £0.8 billion in approvals 'in detail'). This total was £0.7 billion more than the total grant funding that it had approved 'in detail' in seven years to March 2008. In March 2009, the Secretary of State announced that the Council had at that point built up approvals 'in principle' for 79 projects anticipating £2.7 billion of funding that it could not afford. In the meantime another 65 colleges had also submitted proposals for projects that, if they were approved, would require grant funding of around £3 billion.

3. **The Department failed to recognise that the Learning and Skills Council was no longer controlling the flow of projects.** The Department is reviewing its arrangements for overseeing its arm's length bodies. It must develop arrangements that provide it with a clearer view of the financial position of key programmes and the financial implications of key decisions on those programmes.

4. **There is considerable uncertainty about the future of the programme which must be resolved as soon as possible.** Following an independent review, the Department and the Learning and Skills Council developed and applied new criteria to allocate the £300 million of additional funding made available through the 2009 Budget. They subsequently selected 13 colleges projects to go ahead. Other colleges with advanced plans, such as the Grimsby Institute, have incurred costs on developing projects and need to understand the prospects for funding in future. The Council must communicate clearly and openly with these colleges to inform the difficult decisions they must take on their projects. The Department must meet its commitment that colleges will not be allowed to get into a situation where they cannot meet their financial obligations as a result of decisions taken by the Council on the capital programme. There may be scope to repackage some projects in future, for example by bundling them together with other colleges or with schools being redeveloped as part of the Building Schools for the Future programme.

5. **There is a risk that some colleges are taking on more debt than they can comfortably service.** At the end of 2007–08, 23 colleges had long term debt exceeding 40% of their annual income. These colleges and others with increasing levels of debt could be more vulnerable to loss of income if they fail to generate the projected demand for courses from learners and employers. The Learning and Skills Council needs to keep the financial health of the sector under close review especially given the current economic climate.

6. **Colleges have largely controlled capital costs within their budgets but whole life costs have received less attention.** Once the response to the current funding problems have been decided and implemented, the Learning and Skills Council should work with industry professionals to develop a suitable approach to incorporating whole life cost considerations into the feasibility, design and construction stages of a project.

7. **Risks associated with the planned transition of the programme from the Learning and Skills Council to its successor bodies will require very careful management.** With the dissolution of the Council expected by 2010 the Department will need to be confident that the management of the programme is not put at further risk, that uncertainty and funding issues are resolved as far as possible, and that overall the administration burden on colleges is not increased.

1 Progress in improving the physical infrastructure of further education colleges

1. On incorporation in 1993, further education colleges in England assumed ownership from local authorities of most of the land and buildings they occupied. The overall estate was larger than necessary, and many buildings were in a poor state of repair or were unsuitable for modern educational purposes. Between 1993 and 1996, the Learning and Skills Council's predecessor, the Further Education Funding Council, provided colleges with capital funding, mainly for projects to address serious health and safety risks. From 1999, the Further Education Funding Council distributed funding for capital projects. The Learning and Skills Council expanded this programme following its establishment in 2001. The design of the capital programme has taken account of the ability of many colleges to make a substantial contribution to their project, through disposal of surplus assets, raising secured loans and using accumulated financial reserves.[2]

2. The programme has stimulated capital investment, and completed schemes so far have generally provided good value for money. By 2008, about half of the further education estate had been renewed, reducing its size and enabling more efficient use of the space. The aim had been that the entire sector should be renewed by 2016, but the Department is now not able to say when the programme will complete. The new and refurbished buildings are often of high quality and appreciated by learners, college managers and staff. The Learning and Skills Council does not, however, maintain data on the quality of new college facilities and their impact on learners. For example, its annual National Learner Satisfaction Survey does not ask learners about the quality of facilities and how this is helping them learn and raise their skill levels.[3]

3. The main aim of the capital programme is to meet the need for renewal and modernisation, but other benefits have come from better quality facilities, such as increases in learner participation, retention and achievement. About half of the projects undertaken are intended to provide more places for learners. Research carried out for the Council by Frontier Economics[4] indicated that colleges where projects had been completed had achieved an annual average increase of around 100 learners per £1 million invested.[5]

4. Projects that started earlier in the programme gave less attention to ensuring that completed buildings were environmentally sustainable. Since 2006, the Learning and Skills Council has given more emphasis to the need for sustainability, increasing the cost allowance for sustainability in its range of acceptable cost levels, and in 2007 introducing the requirement to meet BREEAM (Building Research Establishment Environmental Assessment Measure) ratings. The Council expects colleges to be commercially astute in negotiating contracts and in ensuring that their contractors deliver value for money

2 C&AG's Report, paras 1.8, 1.9, 2.2–2.3

3 Qq 1, 34, 63; Ev 12; C&AG's Report, paras 1.9, 3.5, 3.13

4 Frontier Economics (2007), *Evaluation of the impact of capital investment on colleges*; Frontier Economics (2008), *Evaluating the impact of capital expenditure in further education*

5 Qq 32–36; C&AG's Report, para 3.11, Figure 4

through new facilities that are cost effective to run and maintain, while also being environmentally sustainable.[6]

5. Colleges are expected to contribute to the wider needs of local communities, and the Department and the Learning and Skills Council stress the importance of their integration into the local economy and community. They consider there are different ways of doing this, such as through local area regeneration, and expect to see more colleges demonstrate entrepreneurial leadership.[7] The Department considers that college buildings should be designed with local knowledge if they are to meet local needs. A 'one size fits all' approach is unlikely to be effective in terms of securing the support of the local community which a college is intended to serve.[8]

6 Qq 50–52; C&AG's Report, paras 3.6–3.9

7 Qq 52, 56, 58–59

8 Qq 30, 54

2 How the serious funding problems arose in the programme

6. As autonomous bodies, colleges decide when to undertake a project and seek financial support from the Learning and Skills Council's capital programme. In the early days of the capital programme, the Council aimed to build up momentum by encouraging many colleges to develop plans for projects. The first projects had been relatively simple, but as the programme progressed they became larger and more complex. The total cost of projects approved 'in detail' by the Council between April 2001 and March 2008 was £4.2 billion, including £1.7 billion of grant funding from the Council. Until this time, the flow of projects had been manageable.[9]

7. The National Audit Office report, which was based on project information up to March 2008, was published in July 2008. It found that increases in project costs and the proportion funded by the Council were putting the affordability of the programme at risk within the Council's existing budgets. The report concluded that careful risk management and prioritisation of funding would be required and that the Department needed clearer visibility of the programme.[10]

8. From early 2008, some powerful drivers were increasing the amount of grant support required from the Council, including:

- the Council's intensive promotion of the programme, together with the spread of good news about the success of the programme;
- concern among colleges about how the Machinery of Government changes might affect the capital budget;
- costs were rising as colleges with relatively less strong finances entered the programme, combined with increased quality standards and rising construction industry costs, and
- the economic downturn, which made it harder for colleges to realise their private contribution through borrowing and land sales.

In addition, regional offices were encouraging colleges to expand their projects.[11]

9. In April 2008, the Learning and Skills Council recognised that it needed either to extend projects over a longer period of time or to prioritise projects so that the programme remained affordable. In May, the Council's Finance and Resources Board noted that the demand for capital funding was strong and that there might be a shortfall in available budget across the Spending Review period. However, the Council did not introduce prioritisation or rationing of capital funding and it continued each month to approve high values of projects (**Figure 1**).[12] In the period April to December 2008, the Council

9 Qq 1, 21–22; C&AG's Report, para 4, Figure 5, Ev 10

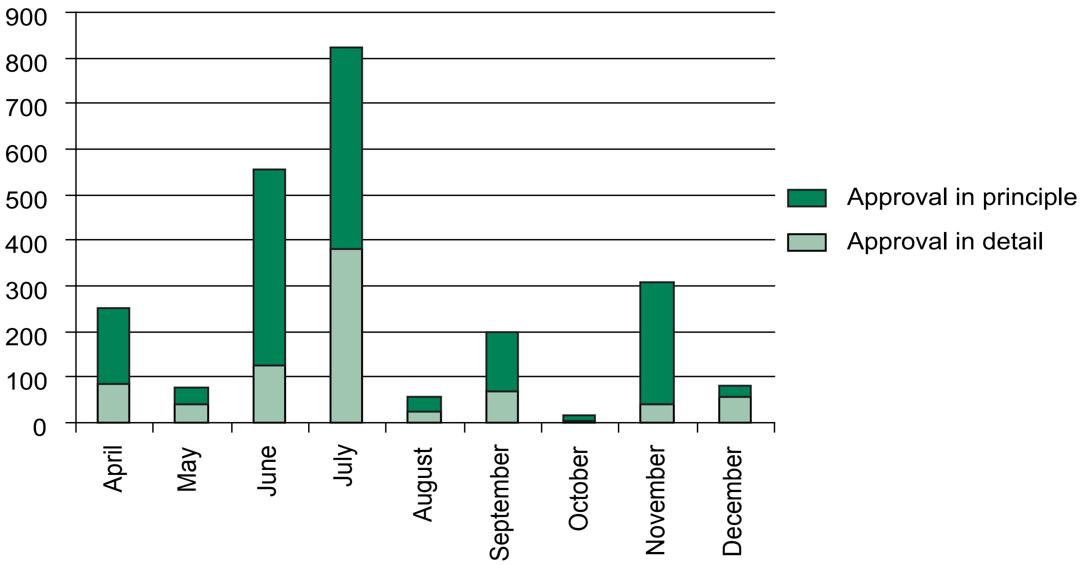
10 C&AG's Report, paras 14, 22i, 3.3

11 Sir Andrew Foster (March 2009), *A Review of the Capital Programme in Further Education*, para 13

12 Sir Andrew Foster (March 2009), *A Review of the Capital Programme in Further Education*, paras 17–20

approved 'in detail' projects that required grants of £0.8 billion and approved 'in principle' projects requiring grants of £1.5 billion.[13] The Department had sight of the rapidly growing scale of the programme because it attends meetings of the Learning and Skills Council's National Council which is the top tier for its decision making and approves the largest projects.[14]

Figure 1: Grant funding approved ('in detail' and 'in principle', £m), April 2008–December 2008



Source: Ev 10

10. The Learning and Skills Council failed to take firm action to tackle the mounting crisis until December 2008 when, realising that it needed a clearer view of existing commitments, it deferred decisions on applications from colleges until March 2009.[15] The situation on the programme was communicated to the sector as a whole when an announcement was made on 27 January 2009 that Sir Andrew Foster would be carrying out a review of the circumstances leading to the problems and how management of the programme could be made more effective.[16]

11. The Learning and Skills Council's review of projects confirmed that it had given approval 'in principle' for many projects that could not be afforded within the budget for the Spending Review period 2008–09 to 2010–11. It had given approval 'in principle' to 79 colleges with projects that would require nearly £2.7 billion of Council funding to proceed. Another 65 colleges had submitted bids for approval 'in principle' of projects that anticipated Council funding of a further £3 billion.[17]

13 Ev 10

14 Details of the National Council are at www.lsc.gov.uk/aboutus/organisation/aboutnationalcouncil

15 Sir Andrew Foster, *A Review of the Capital Programme in Further Education*

16 Department for Innovation, Universities and Skills press release (27 January 2009), Denham and Learning and Skills Council appoint Sir Andrew Foster to review college building programme finances

17 Department for Innovation, Universities and Skills press release (3 March 2009), Denham statement on capital investment in further education colleges.

12. In his Review, Sir Andrew Foster recommended that the priority for the Department and the Learning and Skills Council should be to establish, in consultation with the sector, a needs-based approach to inform decisions on the future programme. The process needed to be implemented speedily and based on detailed information on existing projects in the pipeline.[18] The Department will carry out a review of its arrangements for overseeing its arm's length bodies. The Department's Permanent Secretary and the Council's Chief Executive were not aware of the scale of the problems at the time of the Committee's hearing in November 2008.[19] The Council's Chief Executive, Mark Haysom, subsequently resigned in response to Sir Andrew Foster's findings.[20]

13. The 79 colleges with approval 'in principle' for a project have incurred internal and external costs in developing their plans and, in some cases, in preparing to start construction work on their project (see **case example** below). In March 2009, the Association of Colleges surveyed colleges and the responses included 64 colleges with approval 'in principle' which estimated that they had spent £121 million on their projects to date and were committed to spending £95 million in the next year.[21] The Secretary of State has announced that colleges will not be allowed to get into a situation where they cannot meet their financial obligations as a result of decisions taken by the Learning and Skills Council on the capital programme.[22] The case example demonstrates that the costs incurred by colleges on the basis of approval 'in principle' can be very significant.

Case example—Grimsby Institute of Further and Higher Education

Grimsby Institute is a large college with around 9,000 (full time equivalent) learners. It is based in three locations in Grimsby in buildings that are in need of modernisation.

It started to plan a project in 2006, and the Learning and Skills Council gave approval 'in principle' for a major project in December 2007. The Institute submitted its application for approval 'in detail' in October 2008, and it expected to start construction work in March 2009. The £139 million project would require a £105 million grant from the Council, alongside £6 million funding from the Higher Education Funding Council for England, £5 million from Yorkshire Forward and bank loans of £23 million. This ambitious redevelopment would form part of a 'Learning Village' also involving another college, a school and the local council, and would rationalise the Institute's estates onto a single campus. It also aimed to address the area's skills needs, in particular through provision for higher level skills and 14-19 diplomas. The project would also support construction industry jobs.

The detailed application had not been approved by the Council before the programme was put on hold. The Grimsby Institute reported in April 2009 that it had by then incurred costs of £4.7 million (towards which the Council had contributed £1 million), including £3 million of consultants' fees but excluding its own staff costs. It was uncertain whether its project would go ahead and needed to decide shortly whether to bring back those students who were previously relocated in expectation of the construction work starting. The Institute was not subsequently one of the 13 colleges whose project was selected to proceed by the Learning and Skills Council in June 2009.

Source: Ev 10

18 Sir Andrew Foster (March 2009), *A Review of the Capital Programme in Further Education*, paras 47–56

19 Ev 12

20 Department for Innovation, Universities and Skills press release, *John Denham Written Ministerial Statement 1 April 2009: Further education capital programme*

21 Association of Colleges (March 2009), *AoC College Capital Cost Report*

22 Department for Innovation, Universities and Skills press release, *John Denham Written Ministerial Statement 1 April 2009: Further education capital programme*

14. The 2009 Budget announced that an additional £300 million of capital funding would be available in the Spending Review period, enabling the funding of a limited number of further projects starting in 2009–10 and based on needs-based prioritisation criteria and the readiness of colleges to start construction work. The Council estimated that this funding will enable it to approve new projects costing around £750 million, and asked colleges to examine how they could reduce the scale of their projects to increase their value for money.[23] The Council announced its funding decisions on 26 June 2009. The 13 selected colleges have been asked to make cost reductions to their project plans and to increase funding from other sources.[24] Although the Department announced the criteria that it had used, it did not explain the rationale for selecting these 13 colleges.

15. The Learning and Skills Council is planned to be abolished in 2010 and its responsibilities to be passed to 150 local authorities, a Young People's Learning Agency, and a Skills Funding Agency. The Department for Business, Innovation and Skills will manage the handover process and decide with the Department for Children, Schools and Families how the capital programme will be managed in future.[25]

23 HM Treasury (April 2009), *Budget 2009: Building Britain's future*, para 6.16; Ev 15

24 Kevin Brennan (Minister of State), Written Statement, 26 June 2009

25 Qq 60–62; C&AG's Report, para 1.3

3 Project funding and the implications for colleges' indebtedness

16. The capital programme relies for a substantial part of its funding on colleges' ability to gain access to secured loans, to dispose of any surplus assets, and to draw on any accumulated reserves. For projects approved from 2004–05 to 2007–08, £0.7 billion of funding was raised through loans and £0.5 billion through asset disposals, compared with £1.3 billion from Learning and Skills Council grants.[26]

17. The economic downturn is now making it more difficult for colleges to secure loans and to fund their projects through the disposal of surplus assets, and colleges could in time become more exposed to higher debt financing charges. The Learning and Skills Council reported in November 2008 that it had not seen difficulties of access to loan finance, largely because the programme itself was low risk for lenders and generally represented safe investment opportunities. There are two main commercial lenders, and others had expressed an interest in participating in the sector.[27] The Department has since advised us that the downturn does not appear to be having any immediate impact on the availability of finance to lenders' existing customers.[28]

18. As the programme has progressed, the total of colleges' long term loans has risen from just over £200 million in 2000–01 to £731 million at the end of the 2006–07 academic year. This level of debt was equivalent to 12% of the sector's total annual income, and was lower than the comparable figure for the higher education sector, where loans were equivalent to 19% of income in 2006–07. The indebtedness of the further education sector is, however, growing as larger projects continue to come on stream. Projects approved in 2007–08 included expected additional borrowing of £483 million, and college accounts show that total long term loans had increased to £847 million by the end of the 2007–08 academic year.[29] Projects approved in 2008–09 included college contributions of £416 million (much of which will come from loan finance).[30]

19. The Learning and Skills Council determines the amount of financial support it will provide for a project based on its overall affordability to the college. The Council usually expects a college to borrow up to 40% of its annual income. At the end of the 2007–08 academic year, 23 colleges had long term debts exceeding 40% of their income. Colleges with higher levels of debt are likely to be at greater risk if they experience a significant decline in their income. This is more likely to happen where a college receives less public funding because of the main type of courses it provides. For example, courses which do not lead to an approved qualification do not usually attract public money. Increased competition from other colleges, private sector providers and sixth forms can also have an impact on a college's income. The Department considers, however, that even where a

26 C&AG's Report, Figure 6

27 Q 5; Ministerial statement, 28 January 2009; C&AG's Report, para 14

28 Ev 12

29 Q 2; C&AG's Report, para 3.18, Figure 20; Ev 10, 13, 15

30 Sir Andrew Foster (March 2009), *A Review of the Capital Programme in Further Education*

college's debt is as high as 40% the servicing costs will still be equivalent to only around 4% of its annual income, and that it is therefore likely to be able to withstand some loss of income.[31] Based on its assessment of colleges' financial plans submitted in summer 2008, the Council considers that 13 colleges have inadequate financial health including four that received capital funding support during 2008–09.[32]

31 Qq 2, 63; C&AG's Report, paras 3.16, 3.18–3.19; National Audit Office analysis of Learning and Skills Council publication, *College Accounts 2007/08*, www.lsc.gov.uk/providers/pfm/financial-support/College+Accounts.htm

32 Ev 11

4 Project management

20. Colleges are responsible for determining their procurement strategy, which includes the contractual arrangements for the new build or refurbishment. The Learning and Skills Council promotes the use of two-stage design and build contracts in line with Office of Government Commerce guidance. However, some colleges have used traditional contracting, which potentially carries a higher risk of cost escalation if not tightly controlled. The Council considers that colleges' practices have since changed, with design and build now much more the norm.[33]

21. While the Learning and Skills Council requires colleges to consider private finance or public-private partnerships as a means of funding, colleges have rarely chosen them. This is because the value, size and scope of projects have not generally been large enough to make them financially attractive as private finance deals. By contrast the Building Schools for the Future programme, which started in 2005–06, groups schools into packages, making them more amenable to private financing.[34] The Council has not so far sought to get different colleges to group their projects into packages for tendering. It is wary of moving towards standard solutions for colleges because it considers that they need tailored projects that respond to the needs of the local community. The Department considers that schools are easier to group into packages, although there could be some scope for packages of four or five new colleges across the country using the same building contractor. The Council is receptive to the integration of college projects on shared sites with other educational institutions. This is occurring in some locations such as Macclesfield and is planned for Grimsby.[35]

22. Colleges have generally been successful in controlling the costs of their projects. Some 27% incurred a cost overrun, averaging £0.9 million (or 8% of the approved cost). Where costs do overrun after detailed approval, colleges have to bear these costs and do not receive additional funding.[36]

23. In making decisions about the design of a new building or major refurbishment colleges need to consider both the capital cost and on-going running and maintenance costs. This is because the design and the materials used can significantly influence the whole life costs of a building. The Learning and Skills Council advised colleges in April 2008 that they should take account of whole life costs in reaching decisions on college designs. Forecasting whole life costs can be complex, and colleges' estimates of the running and maintenance costs of their new buildings are often not reliable. The Council expects the 'eMandate' estates database to be an important source of information for colleges on running and maintenance costs, and all colleges must now provide data for it as a pre-requisite of receiving capital grant funding.[37]

33 Qq 29–30; C&AG's Report, para 2.19, Figure 8

34 Q 4; C&AG's Report, paras 20, 2.18

35 Qq 52–55, 59; C&AG's Report, para 2.22

36 Q1; C&AG's Report, paras 2.37–2.38

37 Qq 9, 31; C&AG's Report, paras 2.39–2.40

24. Most colleges do not have in-house project management expertise and rely heavily on consultant project managers. To support colleges, the Learning and Skills Council provides guidance, training and advice, including through a national property services team of 22 staff which is to be strengthened. In April 2008, the Council set up a series of framework contracts to assist colleges in accessing appropriate management and technical consultancy expertise more quickly and cost effectively. The Council accepted that framework arrangements might have been established earlier, but emphasised that its first priority had been to secure momentum in the programme by approving projects that could be started quickly, where colleges already had existing relationships with technical consultants and other experts.[38]

25. Colleges reported that the Council's requirements and processes are the third most common cause of delay in getting detailed approval for their projects, after local authority planning issues and project design changes. The Council considers that, where they occur, delays reflect the need for it to be confident that colleges' proposals are well thought through and will deliver value for money. Nevertheless, the Council told us that it kept its processes and requirements under review to minimise unnecessary delays.[39]

38 Qq 26–28; C&AG's Report, para 2.27

39 Qq 7–8; C&AG's Report, Figure 14

5 Progress in the regions

26. The distribution of grant funding in the early years of the programme was influenced by those colleges which were first in bringing forward their project proposals. These were largely those colleges which had surplus land and buildings, and were therefore better placed to raise a significant proportion of the project cost. As a result, the initial distribution of funds across the nine regions varied considerably. By 9 June 2009, funding for some large projects in regions that had previously received less investment meant that funding had become more evenly distributed between regions after allowing for the volume of funded learning underway (**Figure 2**).[40]

Figure 2: Grant funding approved 'in detail', April 2001–9 June 2009

Region	Number of projects	Total grant approved £m	Grants as % of national total	Guided learning hours as % of national total
North West	110	545	19	17
South East	121	483	17	15
Greater London	85	446	16	14
West Midlands	94	321	11	13
East Midlands	58	243	8	8
Yorkshire and the Humber	91	231	8	10
East of England	51	227	8	9
North East	35	218	8	8
South West	71	157	5	7
Total	716	2,871	100	100

Source: Ev 16

27. The East of England had made more early progress than most regions in renewing its estate, having dealt with over 60% of its floor space by May 2007. Typical projects in this region tend to be smaller, reflecting the largely rural nature of the region, and financed through a lower proportion of Learning and Skills Council grant relative to the size of the total further education estate.[41]

28. By May 2007, colleges in Greater London had made the least early progress with completing their capital projects overall, with 32% of the college floor space area being renewed. The situation in Greater London is particularly challenging. Projects tend to be expensive and more complex because of the time taken to achieve planning permission and other statutory consents, as well as because of the need to build around existing facilities

40 Ev 13

41 Qq 24–25, 56; C&AG's Report, Figures 7, 16, Ev 13

still in use and on land surrounded by other buildings rather than on greenfield sites. While London colleges were not slow in developing proposals, more time was required for them to progress through each of the pre-construction review and approval stages. As a consequence, renewal of London's further education infrastructure is taking longer to complete. By March 2008, £165 million of grants had been approved 'in detail' for projects in Greater London, and this had increased to £446 million by 9 June 2009. However, as with the rest of the country there is now considerable uncertainty how projects that do not yet have approval 'in detail', such as a £61 million project at Lambeth College, will be taken forward.[42]

42 C&AG's Report, Figures 7, 16, Ev 15

Formal Minutes

Wednesday 15 July 2009

Members present:

Mr Edward Leigh, in the Chair

Keith Hill	Mr Don Touhig
Mr Austin Mitchell	

Draft Report (*Renewing the physical infrastructure of English further education colleges*), proposed by the Chairman, brought up and read.

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

Paragraphs 1 to 28 read and agreed to.

Conclusions and recommendations read and agreed to.

Summary read and agreed to.

Resolved, That the Report be the Forty-eighth Report of the Committee to the House.

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

[Adjourned till Wednesday 14 October at 3.30 pm

Witnesses

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Oral evidence

Taken before the Committee of Public Accounts

on Monday 17 November 2008

Members present:

Mr Edward Leigh, in the Chair

Mr Richard Bacon	Nigel Griffiths
Mr David Curry	Keith Hill

Mr Tim Burr, Comptroller & Auditor General, **Mr Michael Whitehouse**, Assistant Auditor General, and **Mr Paul Wright-Anderson**, Director, National Audit Office, were in attendance.

Ms Paula Diggle, Treasury Officer of Accounts, HM Treasury, was in attendance.

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL

RENEWING THE PHYSICAL INFRASTRUCTURE OF ENGLISH FURTHER EDUCATION COLLEGES (HC 924)

Witnesses: **Mr Ian Watmore**, Permanent Secretary, and **Ms Susan Pember, OBE**, Director, Further Education and Skills Performance Group, Department for Innovation, Universities and Skills, and **Mr Mark Haysom**, Chief Executive, Learning and Skills Council, gave evidence.

Q1 Chairman: Good afternoon. Welcome to the Public Accounts Committee, where today we are considering the Comptroller and Auditor General's Report on renewing the physical infrastructure of English further education colleges. We welcome back to our Committee Ian Watmore, who is Permanent Secretary, and Susan Pember, who is Director from the Department for Innovation, Universities and Skills, and Mark Haysom, who is Chief Executive of the Learning and Skills Council. I will start, if I may, Mr Watmore, by asking a couple of questions of you, and say of course, generally this is a fairly positive Report. These schemes generally seem to have provided value for money, they seem to come in on budget and it is not our remit in any way to have any quarrel with the policy behind what is going on. Now that you have done about half the work, would you say that you have concentrated on what I could term the low-hanging fruit and left the more challenging projects to later, and will this not be a problem for you?

Mr Watmore: I do not think we have done that because, as the Report points out, now we are about halfway through. Perhaps at the beginning, on the very first few projects, they tended to be the simpler ones but for some time now we have been on the bigger, more complex projects. What we are finding is that we are doing more of those large projects simultaneously rather than that the projects are getting more difficult. I think the portfolio as a whole is now really well up to speed and the progress is remaining positive on the newer projects.

Q2 Chairman: Thank you. Can I ask about debt and borrowings now? When the National Audit Office published their Report there was quite a lot of emphasis on this and the challenges and threats that this posed. This is mentioned in paragraph 21 of the Report, where we read that "The programme has entailed an increase in the sector's long term indebtedness, to £731 million. For the sector as a whole, interest payable remains affordable, at around one per cent of college income but a small proportion of colleges"—and this is what I want to ask you about, Mr Watmore—"now have large debts and could be at risk if they experience a reduction in demand for their courses." How are we going to protect local education provision if some of these colleges cannot service their debts? What is going to happen? Without having to go through all the list now orally, you may have to send a note to us on what actually is going on on the ground and what colleges are particularly at risk.[1]

Mr Watmore: That is obviously, in the current climate, a very relevant question indeed. The sector as a whole is quite low on its indebtedness relative, for example, to the higher education sector, which I think in the Report is pointed out to be 19% of income as opposed to about 12% for the sector that we are dealing with. Some colleges go up to 40–50% of their earnings as their borrowings but even at that level, the annual repayments for those colleges are only about 4% of earnings per annum. Were a particular college to lose some of its revenue, a relatively small percentage of that revenue is actually going into servicing the debt each year and if the college got into more severe difficulties, the Learning and Skills Council has quite well-established—

Q3 Chairman: You would step in. We read that 19 colleges had long-term borrowings of more than 40% of their income in 2006–07. It seems to me very high but I am sure you can reassure me.

Mr Watmore: I do not think at that level it is particularly high because, as I say, the debt is quite often over 20 years and therefore it averages out at

[1] Ev 11

about 4% per annum repayment but should they get into difficulties, the Learning and Skills Council has a good, well-established procedure for helping colleges through with a financial recovery plan and I think we are on top of the game with that one.

Q4 Chairman: Thank you, Mr Watmore. May I ask a few questions of you now, Mr Haysom. Thank you for coming. Can we look first at procurement strategy, which is dealt with in paragraph 2.18. What I want to ask you, Mr Haysom, is why have you not used private finance or public-private partnerships as much as they are used, for instance, in school building? Is there some reason? Is it because they are fairly small projects? I suppose a lot of schools are quite small too.

Mr Haysom: Yes, I think it is to do with the size and the nature of the projects. Just to be absolutely clear, it is not us that uses that kind of financing. The colleges make their own choices and they have the full range of options that they can go to. We invite them to have a look at all the funding routes and to make their own judgments, and they tend overwhelmingly to judge that they come through the grant-based routes. I think it is to do with the size of the projects and the fact that the FE projects tend not to be for the development of a new college; they tend to be part of a campus being developed and therefore I do not think lend themselves necessarily to private projects.

Q5 Chairman: Will the funding model that you used earlier be appropriate later on if credit becomes more difficult? I do not want to mix my metaphors. I have already mentioned low hanging fruit. I can now talk about early frosts and all the rest of it. I will not get into that territory but clearly, credit is going to become more difficult so will the funding fall through?

Mr Haysom: Actually, we are not seeing that credit is becoming difficult in this sector because of course, this is a very low-risk approach for lenders to actually come to the public sector. There is not that risk there. We currently have three main lenders in the sector and we are delighted to say that others are expressing an interest in taking part in the sector as well.

Q6 Chairman: I am looking at figure 16. I do not know why there is so much variation in progress. London is obviously performing a lot worse than other areas. It may be because things are more expensive in London. That is an obvious answer. Obviously, I would like to ask you whether there is a risk of London being left behind, but it is a mystery why, for instance, the East Midlands seems to be not performing nearly as well as the South West.

Mr Haysom: I think you just have to bear in mind that the information here is a snapshot in time. If you look at all the applications that have been approved, so not just those approved in detail but those approved in principle, and you look to date, Chairman, you actually see a much more even spread across the regions in proportion to the size of the estate and learner activity in each region and I think that is what you would expect. You are right to pinpoint Greater London as being a particular challenge. The challenge there is not just cost; it is more that they do tend to be very complex capital projects. Any project in a major urban area, as you can imagine, is more difficult and takes longer, the planning issues are greater and so on, but we are now seeing some very substantial Greater London projects coming through as well.

Q7 Chairman: Mr Haysom, I rather thought that you were the man who was supposed to make things happen. Why is it that we see in figure 14 on page 24: "The reasons for delays in getting detailed approval for projects"? They cite local authority planning issues—that would be a common complaint when you are trying to build things –design changes. Your organisation comes third when actually you should be a facilitator rather than a delayer, surely?

Mr Haysom: Absolutely. It is nice of you to recognise that we are the organisation that does make things happen.

Q8 Chairman: I said you are the organisation which is supposed to make things happen. Let us not be too positive.

Mr Haysom: Okay. We do make things happen and I think that is evident from this Report. I was interested to see this as well and, reflecting on it, I suppose you would expect colleges to say this, would you not? There are some very stiff tests that we apply for parting with money, and also stiff tests to apply in terms of testing whether colleges can manage their indebtedness and can actually return to good financial health within a relatively short period. So you would expect us, I think, to make a very careful assessment of what is possible. I think you would also expect that colleges would be pretty ambitious and would want to get on with things. Sometimes you just see a little bit of tension there. We do, as I think I have said in previous hearings, constantly keep our processes under review and constantly challenge ourselves on bureaucracy, and I think at the moment we are content, given the scale and nature of this project, that we are in good shape.

Q9 Chairman: My last question is this. We read in paragraph 2.40 that the colleges' estimates of their own running costs are often not reliable. Why is this? Is there a lack of expertise? What is going on?

Mr Haysom: I think what we are saying is that when colleges look forward and make estimations as to what the running costs will be, they are not always 100% accurate and I do not think it is an absolutely precise science. We are trying to make it more precise and we have introduced a database which is called eMandate which allows sharing of estates running cost data between different colleges so they can get better at understanding what is going to happen as they go forward and benchmark their costs against their peers. It is a hugely important part of rebuilding, as you know.

Q10 Nigel Griffiths: On page 16, table 7 is a table of the funding approved for projects by region between 2001 and 2008. What does that tell me?
Mr Watmore: Shall I just amplify Mr Haysom's answer? This particular snapshot is of the projects that have reached the detailed stage of approval. There are many more projects in the stage before that and if you add those projects in, you get a much more even spread across the country.

Q11 Nigel Griffiths: So what do I read from South West at the bottom at £147 per square metre and the North East at £311 per square metre?
Mr Haysom: If I may, Ian's point is absolutely right, that you need to take into account all the applications but you also need to take into account that this is a slightly strange number that we are looking at here. What we are doing is dividing the total amount of capital spend by the square metreage of the overall estate in that region, so it is giving a strange kind of measurement and it is only when you have done a significant portion of work that you start to see that balancing out. Ian's point is exactly that, that as you go forwards, you will actually see those numbers coming much more closely together.

Q12 Nigel Griffiths: I am picking two areas which are not the most overcrowded parts of Britain and seeing more than twice the money spent in one area than in another. I am not comparing London or a particular urban conurbation. I am looking at the fairly rural South West and mixed rural/urban North East.
Mr Haysom: I think it might be helpful, rather than try to keep demonstrating the same thing, if we provide you with information on the current position. You will be able to see the numbers have equalised to a great extent and if you look at those numbers on a per learner basis, you will see that there is much more consistency and if you look at those numbers in terms of square metreage, you will see there is more consistency too.[2]

Q13 Nigel Griffiths: I was not particularly arguing whether it was narrowing. I was asking for an explanation of £311 as against £147.
Mr Haysom: I am sorry. The explanation is that this is a moment in time and it is a slightly strange measurement because you are taking what is spent at that moment in that particular region against another one, and then you are dividing it by two different numbers, which is the square metreage. What I am saying is that, with the passage of time and looking at the applications approved in principle as well, you will see a very different picture.

Q14 Nigel Griffiths: Yes, but what I am not quite grasping is what is this moment in time showing me?
Mr Haysom: I think it is showing you that at that moment in time those applications that were approved in detail were greater in some regions than others.

[2] Ev 13

Q15 Nigel Griffiths: Why?
Mr Haysom: They came through in that way. The way the whole programme has worked is that—

Q16 Nigel Griffiths: This is not a trick question. Are you telling me that the properties in the North East were in a dreadful condition but they have been better maintained in the South West?
Mr Watmore: No, I do not think you can conclude that from this.

Q17 Nigel Griffiths: What can you conclude?
Mr Watmore: I think you can conclude that the North East got out of the blocks faster with its projects and its projects got to the more detailed phase sooner and therefore—

Q18 Nigel Griffiths: They committed more spend.
Mr Watmore: Earlier in the programme cycle. If you were to take London, which is one I particularly worried about myself when I saw this chart, because it is towards the bottom, when you put in all the projects around Greater London today, it actually comes out to be the third highest region. The reason for that is because the projects are longer lasting before they reach that detailed phase. As Mr Haysom said earlier in answer to the Chairman's question, in London the projects tend to be more complex, therefore take longer to get through to detailed planning phase so as the detailed planning phases unwind, I think you will find that this will regularise itself across the country.

Q19 Nigel Griffiths: Is that the same in the South West, which is not London?
Mr Watmore: The South West is also significantly higher upwards in numbers than it was at the time of this chart. I suspect, again, you will also reflect maybe, especially with one or two regions, the historical estate that was inherited as well because obviously, the worse it was, the more urgent it was to update.
Ms Pember: The other difference on table 7 is that some of the facilities are far more complex in the more expensive areas so you are going to get more construction, more engineering and more classroom-based activity. So there is a mix. Paragraph 2.9 explains that in a bit more depth.

Q20 Nigel Griffiths: On page 5, paragraph 7, it appears that some of the colleges which have the greatest need are not receiving the highest priority. Do you accept that and why is that so?
Mr Haysom: I think this is the same point. The way that this works is that it is the colleges who elect to come forward with their capital proposals. We encourage them to do so and we have our own specialist teams supporting them, inviting them to develop their own strategies for their estate and so on, but it is the colleges themselves that come forward and, as Ian was just saying, a number of colleges came forward quickly, others have taken a bit longer. That is the way it has worked. We had no

requirement early on to try and prioritise because we were able to fund all of the applications that were coming forward.

Q21 Nigel Griffiths: Is a fair summary of what you are saying that it has been of the race to the swift?
Mr Haysom: In the early days, what we were trying to do when we started this programme was to get a build-up of momentum very quickly with this to make sure that we were tackling as many colleges as we could and to encourage those that were going to be more difficult and more complex to come forward and start developing their plans. That is exactly what has happened and I have to say it has worked very well. It is working to the extent that we have huge applications coming through in huge numbers now, and we are having to make sure that we are balancing those very carefully.

Q22 Nigel Griffiths: This Report was signed off on 7 July so that is the snapshot then. You are implying in your evidence to the Committee that there has been a dramatic shift since then.
Mr Watmore: No. Can I just be clear on what I said earlier? The snapshot at that time, which is here, is the projects that had reached the detailed stage. If you add in the projects that are at the stage before but will become detailed in the next year or two, you get a much more even spread. So the pipeline of projects is more skewed towards London but the detailed applications will be more skewed in the way that this is.
Mr Haysom: It is also true that since this Report was signed off, because the Report captures data up to March, there has been a significant move forward. If I refer you to paragraph 4 on the same page, it talks about £4.2 billion worth of applications. That is now £5.3 billion. It talks about £1.7 billion worth of grants. That is £2.45 billion now. That now equates to 693 capital projects since the beginning of this. That is why I was talking about momentum. We have built momentum very fast and it has been maintained, and there are huge numbers of applications still flowing through the system. That is why these regional variations, frankly, are a little bit of a red herring. The greater issue in the regions Ian has already referred to, and that is that it is the estate that we inherited did vary between regions so some regions have more to do.

Q23 Nigel Griffiths: Can you do a paper bringing the Committee up to date?[3]
Mr Haysom: Absolutely. I will be delighted to do that.

Q24 Nigel Griffiths: On page 26 it appears, according to figure 15, that only one major project has been completed in the East of England and only one in the East Midlands. Can you update us on that?
Mr Haysom: Forgive me; I did not bring with me the updated picture by different region but again, we will be happy to provide that.[4]

Ms Pember: That map on page 26 is major projects, not every area of the country needed that sort of investment, over £20 million. All told in the country, there are only 42 institutions that really have not had any major capital work done on them, which I think is quite remarkable in that time we have had to work on this activity.

Q25 Mr Bacon: While we are on the subject of the East of England, I cannot resist, Mr Haysom. It does look rather a large hole in your map with not a lot going on in it. I happen to know, because I was with them quite recently, that Norwich City College has a project for major redevelopment. It is quite significant. It would meet the criteria to be major on your chart. Is it possible that you could send us a detailed note setting out where that is in terms of the approval process and the timelines and everything else?[5]
Mr Haysom: Yes, indeed. No problem at all there. As Susan has just said, the chart there reflects just projects over £20 million. There are a number, as you will know from your own constituency, where we have smaller projects than that which, when you add them all up, amount to something very significant. As Mr Watmore is just showing me, in the chart on page 27, table 16, you will see that East of England is doing rather well by that measure. I hesitate to share that too much because that is shifting all the time, as we said earlier, and all of the regions have performed pretty well.

Q26 Mr Bacon: The only FE within my constituency is Easton College and I have a brief about the three different projects: one of three, one of three and one of 20. It is a very good college. That brings me to my next question, because although I personally have a lot of faith in that college and its Principal to deliver projects successfully, to some extent this does rely on the capacity of projects to deliver. This was in paragraph 2.27. It talks about the fact that they do not mostly have in-house management expertise but rely heavily on a consultant project manager, which begs a couple of questions, first of all about the capacity of different colleges to be effective clients because although Easton College I am sure can be and has been, that is not universally the case by any means, is it?
Mr Haysom: No.

Q27 Mr Bacon: What do you do about that?
Mr Haysom: We have invested very heavily in this and it is something that I think we became particularly aware of just shortly after I joined the organisation, and we are trying very hard to build confidence and capacity right across the system, and real ambition. A lot of colleges at that stage were expressing some concerns, so what we have done is a great deal. We have, as I have already said, a very expert team of our own property people, 24 people, with some out there in the regions. That number is going to grow because the value of projects is still growing very fast. We have supported that team with

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[4] Ev 14
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a whole range of initiatives, ranging from a framework for drawing down consultancy support to training for the project managers in the college. In every college where there is a major project they have to appoint one of their senior people to run the project. We will then offer training in conjunction with RIBA and so on, so there are a whole range of initiatives to support them through this. However, you are right to flag it because this is a hugely significant role that these people are taking on, and I have to say that the experience that the NAO has reflected in here and is the experience that we see all round the country is that they do a fantastic job, and it is great to have the opportunity of saying that.

Q28 Mr Bacon: You mentioned framework contracts. I used to represent the management consultancy industry a long time ago in the mid Nineties; I worked for the trade association representing the big firms, and framework contracts had already become quite standard both in central government and in local government, yet it says here in paragraph 2.27 that some colleges are unhappy that they are now barred from using firms outside the framework which have given them good service in the past. Surely there is a simple answer to that: that those firms get inside the framework. "In April 2008, following a competition, the Learning and Skills Council introduced framework contracts for consultants." It is quite recent. Framework contracts are known to be a better way of doing it. Why has it taken this long to get to the point where you are giving out advice about framework contracts?
Mr Haysom: I think it comes back to what we were saying about trying to build on the momentum across the whole sector. We were keen where colleges did have existing relationships that they should continue to work with those people if it meant that the projects could get off the ground quite quickly but then, if you look at the very rapid growth in scale of the whole programme, I think it had reached a point where we were saying we now need a more systematic approach. We now need to help colleges in the way that we have just described through this. I think it has worked. You could argue that we could have done it a bit quicker.

Q29 Mr Bacon: You may give the same answer—I do not know—in relation to the use of traditional contracting. Paragraph 2.19 talks about this, and the fact that design and build is the preferred choice but it has not always been the approach that has been taken. Why are colleges still using traditional contracting rather than design and build?
Mr Haysom: Very few are now for major projects.

Q30 Mr Bacon: It has improved?
Mr Haysom: It has changed quite significantly over the years.
Ms Pember: Also, in local areas, where you have listed areas, you live in a conservation area, your colleges have special requirements, it is often the local architect, who knows that council better than others, that will give the college the best advice. The best project is when they dovetail that local knowledge with the design and build project.

Q31 Mr Bacon: What about the use of whole life costs as an assessment tool? It says in paragraph 2.39 that "Construction project decisions should be based on the optimum combination of whole life costs and quality." Nobody could really argue with that but at the bottom of that paragraph it continues: "Colleges assessed their main property strategy options using a net present value calculation over 20 years, but the whole life costs of buildings were not included." Why is there still so little emphasis on whole life costs? You do not have to go down the PFI route to take account of whole life costs, and the notion of whole life costs has been around, to some extent because of PFI, for a very long time.
Mr Haysom: I think where we are now is that we have a new assessment approach which does include whole life costs. I think it is wrong to say that we were not interested in long-term running costs for our colleges prior to that and we also look at running costs when determining the affordability of projects to colleges. We would have been looking at an assessment there over I think a 25-year span but we have taken the step now to build in more emphasis on whole life cost assessment to our new investment appraisal methodology.

Q32 Mr Bacon: Could I turn to figure 4 on page 12. It talks about the main reasons for undertaking projects. Why is it that only about half of the projects are actually about providing more places for learners?
Mr Haysom: Most new projects involve some element of providing entirely new places as well as replacing the existing one. It is important to remember what we are trying to achieve here, which is a renewal of the estate after many years of neglect. There is an urgent requirement to replace what currently exists. What we are replacing it with is a much more efficient use of space, so we are reducing the overall square metreage of the estate and getting a significant efficiency gain as a result of that. What we are also doing as a consequence of this programme is that, by investing in buildings, we are actually increasing participation. So there is a very positive outcome that comes from this. I think it is important that the story is told that way. It is about renewal and modernisation, which is urgent. Then there are a whole load of very positive benefits that flow from that. So you build great buildings—and we do have some very significant buildings around the country, buildings which are something that our communities are very proud of. You build great buildings, more learners come, they stay longer and they achieve more. I think that is a real positive benefit, so more learners are benefiting as a consequence.

Q33 Mr Bacon: Instinctively, intuitively, one would imagine that, if you have nicer, smarter, more spacious buildings, people are going to call it a success and you are going to have more students.
Mr Haysom: Absolutely.

Q34 Mr Bacon: That brings me neatly on to my next question. It says on page 29 that the survey that you do does not include questions relating to the quality of college buildings. If you do not collate the results coming in from different parts of the country, and the survey does not ask questions about the quality of buildings, how do you know that you are actually being successful?
Mr Haysom: We do know, because we have done some comprehensive work which examines the effectiveness of the programme. The work referred to in the Report has actually been recently updated by Frontier Economics and that demonstrates very clearly that we are growing student numbers as a direct result of the level of investment. If you are interested we can provide you—

Q35 Mr Bacon: It says in paragraph 3.11 that the "Frontier Economics' work was based on an analysis of a sample of early projects, the largest of which cost only £13 million. Its findings may not therefore be replicated on the same scale for the larger projects that have since become more common."
Mr Haysom: I am delighted to be able to update you on information that has now been received, which takes projects right up to 2006, I think, which not only validates that but shows a better outcome than is reflected here.

Q36 Mr Bacon: So you are confident in saying there is a very visible correlation between improvement in buildings and improvement in numbers and performance?
Mr Haysom: There is. We are seeing that very clearly indeed, yes.
Mr Watmore: It is about 100 students per £1 million invested.

Q37 Keith Hill: People in further education used to regard themselves as the Cinderella of the education service and I think actually this positive Report indicates that that notion is now a little antiquated, with 50% of the infrastructure renewed but, as a London member, perhaps I ought to ask a few more questions about progress in London, which has already been referred to by the Chairman and Mr Griffiths. Only 32% of the infrastructure was renewed by 2008 in comparison with 50% nationwide. Although London, with 53 colleges, does not have the largest number of colleges by region, I imagine that since a lot of those colleges will be on several sites—for example the Lambeth College, my own college, has four sites—presumably the infrastructure is pretty large comparatively. I would also presume that, given the demographics of London, a rather young population, our very large immigrant communities, who need to catch up on their education, that actually the further education student population in London must be pretty large, therefore progress in London is very important.
Mr Watmore: Could I answer that initially and others can chip in. I have two comments. One, it is absolutely right that the challenge in London is significant, for all the reasons you list, which has tended to mean that projects have taken longer to get to the current point. The Report talks about £165 million having been invested in London to date but that is at the detailed phase. In total we have something like £760 million worth of projects in the pipeline. It is just taking that little bit longer to get them from that stage of the pipeline to the more detailed stage, for the reasons you have announced. I would also say, just as a personal observation, that when you go and visit one of these colleges that has been improved, like the City and Islington one that is on page 26 on the map, you start to see not just a great building but you get this great story that comes from the staff, from the learners, from the local community, and the ramping up, the gearing effect on that building is just breathtaking. I think we will see more and more of that happening in London as more of those projects come on stream.
Mr Haysom: If I could just add to that, City and Islington is a very good example of what can be achieved. It is actually three great buildings which have been developed over a number of years, and it does, as I said earlier, take longer in London. There is no doubt that doing this kind of huge investment in major urban areas is more difficult. City and Islington were able to do it because they were able to decant from one building to another, to move students around. That is not always possible. I know Lambeth has been a particular challenge. You will know, I am sure, that we have passed two capital proposals from Lambeth College. Back in September 2005 there was an in-principle agreement to spend £61 million and then detailed approval was given in January 2007 for a second project.

Q38 Keith Hill: I want to say something nice about that in due course, if I may, but in the mean time this £760 million in the pipeline—did I hear you earlier say that was the third highest level of investment by region in the country?
Mr Watmore: If you were to do the dividing of that amount by the square metreage, then you would find, I think, that Greater London becomes the third highest region, yes.

Q39 Keith Hill: Can we just unpack this business about the complexity of this work in London—complex in what sense? Can we have a little more precision about that?
Mr Haysom: It is not just London. It is any major urban area.
Ms Pember: There is more land to build on outside London. Several colleges have space to build a new college; they can put their existing students into that. In London colleges they are actually landlocked; they have nowhere to put their existing colleges when they are rebuilding. That is why the cities particularly are finding it quite difficult.

Q40 Keith Hill: Why does that make it slower? I do not quite understand. Obviously, you can achieve it.
Ms Pember: Yes.

Q41 Keith Hill: Why does it make it slower?
Ms Pember: Because you can only build at a certain rate. If you are actually building on a site when you still have students on that site, your actual building rate is going to be slower. The planning is often more complicated.

Q42 Keith Hill: So it is not that management in the London colleges has been slow or inadequate in any way?
Ms Pember: Absolutely not, no. Some of the most innovative schemes are in London, because they have got to be, but it is at every stage slower.

Q43 Keith Hill: So you could show us that actually, the London colleges came forward with proposals at quite an early stage in the process, but that the process of build has taken longer? You could demonstrate that, could you?
Mr Haysom: Yes, in individual products we can demonstrate that.

Q44 Keith Hill: Could you give us a note to that effect?[6]
Mr Haysom: Yes, by all means.

Q45 Keith Hill: Have there been external problems about London—planning issues, for example?
Mr Haysom: Inevitably, there will have been issues with planning in London. I have to say there are issues with planning everywhere. This is not easy stuff, is it? Are they more acute in London? I do not think I feel qualified to comment on that.
Mr Watmore: You are more likely to come across listed building problems in London; certainly a lot of institutions in London struggle with that but I think in general we find the urban construction projects up and down the land are the ones that are more complicated, for the reasons explained.
Keith Hill: Naturally, I have to rely on your analysis, which is that the physical process of construction is slower in London, though, if I might now allude to the good news from the Streatham constituency, Mr Chairman—
Chairman: They are about to get a new MP!
Keith Hill: The particularly good news is, of course, that at the Clapham Centre, which overlooks the Common, a part of my constituency, we are about to get our wonderful new sixth form centre, which I believe is going to be opened by the sitting Member.
Mr Bacon: After you have been elevated to the Lords and they have had a by-election!

Q46 Keith Hill: I cannot possibly comment on that but I have warned them that I may not be the sitting Member at that point. That is a problem they will have to take on board. Also, of course, we now have the prospect of the Brixton site, of the Brixton Centre being redeveloped. There, you see, work is going to be very rapid. Only two weeks ago we saw the plans. It is a lovely development and it is going to start towards the end of 2009 and it is going to be finished in two years. This is quite fast going, is it not?
Mr Haysom: It is, which is why you should never generalise, is it not? Yes, some projects can move very fast. In fact, one of the things that we are seeing very clearly at the moment is that, because developers are freer to concentrate on public sector initiatives than they are on private sector, is an acceleration in terms of the development, so they are getting on site more quickly and getting cracking more quickly.

Q47 Mr Bacon: You mean plumbers are turning up when they say they will?
Mr Watmore: Colleges are the Olympics, Mr Bacon!
Mr Haysom: No, what I mean is that, because there is very little private sector development going on at the moment, they are able to turn their attention more quickly to college building. It is actually a little bit of an issue for us in trying to manage our way through that, as you can imagine.
Keith Hill: It is good news in Streatham, Mr Chairman. I want to pay tribute to the work of the Principal of Lambeth College, Richard Chambers, and to the excellent work of the long-term Chair of Governors, Dame Lorna Boreland-Kelly.
Chairman: Thank you, Lord Streatham!

Q48 Mr Curry: It has all been very genial up to now, has it not? I am sure we are grateful for the tour of the nooks and crannies of old London. The colleges go out to tender and let their own contracts—is that right?
Mr Haysom: That is right.

Q49 Mr Curry: Who rides shotgun on them?
Mr Haysom: Riding shotgun? I am not sure I would quite put it like that but what we would do is subject all of their proposals to very vigorous scrutiny. We will have very vigorous criteria of affordability, we will look at their plans in infinite detail, and we have a team of experts to do that and the colleges will be supported by their own experts.

Q50 Mr Curry: You would expect, I assume, over the next two years to be forcing down prices from contractors, would you not? They are shedding thousands and thousands of workers. You have just said there is no private sector work so they are desperate for work. I hope you are going to screw them to the wall over the next few years.
Mr Watmore: It is interesting because we have been doing right across the public sector a lot of thinking about the implications of the current economic cycle. Obviously, one thing that we are looking at is whether there is better value for money to be gained from existing contractors. We would probably be looking to get more result from the same money rather than less money. For example, weaved through the Report is the building in of sustainability into our projects.

[6] Ev 14

Q51 Mr Curry: You get a better building—is that what you are saying?
Mr Watmore: Yes, exactly. I think this is an era in which right across the public sector in all sorts of different ways we want to be extracting the maximum value for money.

Q52 Mr Curry: A better building in terms of what? More environmentally sustainable? Not just looking nice, but you are getting a material, calculable, quantifiable—if you bite it, you know it is gold?
Mr Watmore: If I could do what Mr Hill has just done and talk about my local college, which is Macclesfield in Cheshire, which I went to visit the other day, one of the big projects on the map, a fantastic centre has been opened. What is really good about that is it is a college, it is a sixth form, it is a high school, and there is a special needs centre all on the one site—and it is one of these centres of vocational excellence for aerospace engineering. So not only is it a great building, but it is actually becoming a great centre for industrial progress, which, with the broader policy objectives of our Department, we are very interested in the skills to create innovation in the economy and we are starting to see that ratcheting through. It has become much more than just the physical construction of the building and more the role that the colleges play in the economy.

Q53 Mr Curry: To what extent are you able to bulk up projects, invite somebody to tender for more than one? There are so many colleges, there must be projects which are relatively similar. Is there some system which is common to them all?
Mr Watmore: The Report touches on this and I am sure Mark and Susan will be able to amplify. The generality of schools projects is that it is much easier to bulk them up. With these college projects, they are not huge in money terms so they do not attract the PFI investor in droves but they are—

Q54 Mr Curry: The taxpayer is very grateful for that, if I may say so.
Mr Watmore: You might say that; I could not possibly comment, as they say. The point about these buildings is that they are very important to that local community and it is therefore important that we get the right building for that community, and the aggregation of purchasing could lead you to a more "one size fits all" philosophy, which I do not think we would want in this sort of environment.
Ms Pember: For the schemes of building a whole new college, to do four or five across the country at the same time, using the same builder, might be quite possible but parts of the country have clubbed together and shared procurement. In the South East, for instance, the Hastings area, the colleges there have gone out for contract for one contractor to put in new lifts in each of the colleges. That might sound quite small but collectively they have had good value for money and collectively they have saved £1 million.

Q55 Mr Curry: What about shared sites? You touched upon that when you talked about Macclesfield. Are you generally aiming to try to bring institutions together on a single site where that is possible?
Mr Watmore: Where it makes sense, I think. I do not think we would want it to go out that it is a general principle but where it makes sense.
Mr Haysom: It is exactly that, and where there are real opportunities to create that kind of learning environment, we are doing it. Macclesfield, I think, is a great example. It is a shame that Austin Mitchell is not here because we could have talked about what is happening in his constituency, which will be an even bigger example of exactly that same thing happening.

Q56 Mr Curry: Since we are doing a tour of the constituencies, perhaps we may come to mine. The assurance I seek is that you are aware of the need to put investment into the rural areas. I have Craven College in my constituency in Skipton and Craven College has suffered badly because of the demand you have made about the numbers to be able to meet various requirements for courses. In a rural area you cannot get that arithmetic. It simply does not happen, so they feel very vulnerable. Then around them they see colleges failing—and I want to talk about that in a minute, because I sometimes think that housing associations and colleges are never allowed to fail, however bad they are, and they ought to be allowed to fail if they are bad. Can you give me that assurance that you do understand that rural areas do have different needs? They are often very dependent on a narrow economic base, and though the schools might well be good, very often it is the further education which is the weak spot in that whole education, learning and skills process. Quite a lot of what has happened over the last few years has militated against it.
Mr Watmore: I do not have any specific information about your constituency but I absolutely agree with the general point. One of the reasons I gave the answer I gave a minute ago was, while we do not want to be too general on these things, you do want the college to become a centre not just of its own learning in communities but in terms of its local economy, and I think getting that blend right between them being good seats of learning for local people and participants in the local economy is part of the vision that we have for this, and obviously that varies in different parts of the country.

Q57 Mr Curry: Do you have any actuarial figures in your mind of how many colleges you expect there to be a decade from now? Do you see a process of consolidation of colleges? This Report is quite clear about those it thinks are good performers and those it thinks are pretty grim. If they cannot manage their own tender, they may not give a very good education.
Mr Watmore: We certainly do not have a philosophy that there are 372 or whatever today and by X it should be something else. I do not think that would be appropriate. What I do think is that a number in

that range represents a sizeable "localness", if I can use that word. Whenever I have looked at this with other functions, banks and social security offices and so on, if you get 400–500 locations in the country, you have sizeable entities but sufficiently local to respond, so with a college estate of this number, it would feel right to me to be sufficiently local to be local, but sufficiently sizeable to have critical mass. That would be my answer to your question.

Q58 Mr Curry: So we are likely, in the natural course of events, to see some process of at least management being taken over by other colleges, are we not?
Mr Watmore: I think you will see colleges develop in the way I have just described. I would like to see colleges becoming much more integral to the local economy. They are already pretty good. I would like to see that more.

Q59 Mr Curry: More closely integrated into the other educational institutions?
Mr Watmore: I think that varies. I have seen examples, for example, in Birmingham, where Aston University and Matthew Boulton are collocated. There is a tie-up there between a university and a college. I gave you the example in Macclesfield, where they are actually sharing the sixth form in effect. They are co-managing a joint sixth form between the high school and the college. If you go to somewhere like Darlington, the college have taken a very "dirty" piece of land, which was completely unusable for anything else, and they have cleaned the land, regenerated the whole area around the college, and created a local community where there was none. There are lots of different models out there and I think we just want to see the entrepreneurial side of the college management looking to take more leadership in that direction.

Q60 Mr Curry: I read a paragraph on page 9 with a sinking feeling: "The Council's responsibility for adult education will therefore be taken over by the new Skills Funding Agency, and its responsibilities for young people's education and training will be shared between the 150 local authorities responsible for learning and a new national non-departmental public body, the Young People's Learning Agency." It then goes on to say, " . . . it will make its decision together with the Department for Children, Schools and Families." How many organisations do we need to change a light bulb?
Mr Watmore: When the machinery of government changes were introduced by the current Prime Minister that created the new Department, they also created this broad decision. Susan is in fact the Director responsible from my Department for implementing that, but the concept is that the Learning and Skills Council will be morphed into an over-19s agency which is called the Skills Funding Agency, targeted at over-19s and for people under 19, that will become more integrated. It is a matter of political philosophy.

Q61 Mr Curry: That was not meant to be a political question. I am simply saying that I am slightly confused as to why, for example, regional development agencies, if we must have them, do not do the work of the Learning and Skills Council because, after all, that seems to be their prime task. The development of learning and skills seems to me to be at the heart of it. In my constituency Yorkshire's Learning and Skills Council is the most anonymous organisation I have ever come across.
Mr Watmore: That it is a political directive that it is for others to make. We have been asked to implement this particular structure.

Q62 Mr Curry: I am sorry. I appreciate that. I simply want you to take home, as it were, that constant changing in choreography makes life difficult, particularly for a group of colleges which, as Mr Hill said, often has seen its itself as a Cinderella and has never in a sense managed to achieve the status, unfortunately, that the German and French equivalents have managed to achieve.
Ms Pember: The Skills Funding Agency will be the sponsor of FE colleges, so FE colleges will be sponsored just by one Department. Although they will be implementing the curriculum of DCSF, DIUS will be the sponsor for the FE world, and therefore I think in the future it will work, and it will ensure that tie-up you were talking about with HE and the rest of the agenda of innovation—we do not use the word "Cinderella" in the FE world, and have not for about five years, because they are not the Cinderella service.

Q63 Mr Curry: She did get the prince, of course, as you recall.
Ms Pember: She did get the prince, yes.
Mr Watmore: And a very good methodology it is too.
Chairman: I think on that note we can draw this genial session to close. Mr Watmore, thank you very much for appearing in front of us. Obviously, it is encouraging that these colleges are getting much-needed investment but the debt in the sector has increased to £731 million, so I think we are going to have to keep a close eye on the smaller colleges and make sure they recruit well so their position is not put at risk.

Supplementary memorandum submitted by the National Audit Office

The National Audit Office report *Renewing the physical infrastructure of English further education colleges* (HC 924, Session 2007–08) included analysis of data up to 31 March 2008. This Memorandum provides updated analysis of subsequent capital project approvals and of college accounts for the 2007–08 academic year. It also provides a case example of a college affected by the recent problems with the capital programme.

1. Project Approvals 2008–09

The National Audit Office analysed the Learning and Skills Council's management information for projects it had approved (in principle and in detail) in the 2008–09 financial year. The following analysis shows by month of approval the cost of grants from the Council that would be required for the projects to go ahead. From April to December 2008, the Council approved in detail projects with £828 million of grants and approved in principle projects that would require £1,538 million of grants.[1]

Month of Approval	*Amount of LSC Grant £million*		
	Approved in Detail	*Approved in Principle*	*Total Amount Approved*
April 2008	84	169	253
May 2008	42	34	76
June 2008	124	432	555
July 2008	381	441	822
August 2008	26	30	56
September 2008	69	130	198
October 2008	6	11	17
November 2008	39	268	308
December 2008	57	23	80
Total April–December 2008	828	1,538	2,366

After 10 December 2008, the Council did not approve any further projects until 4 March 2009 when it approved in detail eight projects with grant funding of £306 million.

2. College Accounts 2007–08

In its report, the National Audit Office analysed the Learning and Skills Council's database of college accounts for the 2006–07 academic year. The Council has since published its database of college accounts for 2007–08 (www.lsc.gov.uk/providers/pfm/financial-support/College + Accounts.htm).

For 361 colleges, we calculated Total Loans as a percentage of Total Income for the year. The indebtedness of colleges as at July 2008 is analysed as follows. The Council determines the amount of financial support it will provide for a project based on its overall affordability to the college. The Council usually expects a college's borrowings to be equivalent to up to 40% of its annual income by the third year after completion of a project.

Total Loans as a Percentage of Total Income	*Number of Colleges*
Less than 10.0%	215
More than 10.0% and less than 20.0%	63
More than 20.0% and less than 30.0%	33
More than 30.0% and less than 40.0%	27
More than 40.0%	23

3. Grimsby Institute of Further and Higher Education

The National Audit Office visited Grimsby Institute on 24 April 2009, meeting with the Principal and Chief Executive, Professor Daniel Khan, and members of the capital project team. The following is a summary of the Grimsby Institute project, which is one of the projects that has received approval in principle and, subject to approval in detail, is ready to start construction work.

Grimsby Institute is a large college with around 9,000 (full time equivalent) learners. It is based in three locations in Grimsby in buildings that are in need of modernisation.

The Institute started to plan a project in 2006, and the Learning and Skills Council gave approval in principle for a major project in December 2007. It submitted its application for approval in detail in October 2008, and expected to start construction work in March 2009. The £139 million project would require a £105 million grant from the Council, alongside £6 million funding from the Higher Education Funding Council for England, £5 million from Yorkshire Forward and bank loans of £23 million. This ambitious redevelopment would form part of a "Learning Village" also involving another college, a school and the

[1] Of the total granted relating to projects approved in principle, £32 million relates to grants for projects that were subsequently approved in detail in the same period.

local council, and would rationalise the Institute's estates onto a single campus. It also aimed to address the area's skills needs, in particular through provision for higher level skills and 14–19 diplomas. The project would also support construction industry jobs.

The detailed application had not been approved by the Learning and Skills Council before the capital programme was put on hold. The Institute reports that it has so far incurred costs of £4.7 million (towards which the Council had contributed £1 million), including £3 million of consultants' fees but excluding its own staff costs. It is uncertain whether the project will now go ahead and will need to decide shortly whether to bring back those students who were previously relocated in expectation of the construction work starting.

26 June 2009

Supplementary memorandum by the Department for Innovation, Universities and Skills (DIUS)

Question 2 (Chairman): *The indebtedness of further education colleges*

LSC finance teams carry out a formal assessment of each college's financial health twice a year based on college financial returns.

When a college seeks the LSC's consent and grant support for a capital project proposal, the LSC's finance teams carry out an additional assessment of financial health. This is based on financial projections, which usually covers a 10 year period. A project proposal is only approved if the college can demonstrate that it expects to return to a robust financial position by the end of the third year following the year of project completion. The LSC grants sufficient capital funding to support a college in achieving this third year position, based on the information presented.

Based on colleges' financial plans which were submitted in summer 2008, 13 colleges out of 363 were assessed as having inadequate financial health based on their estimated financial performance for the year ended 31st July 2008. Of the 13 colleges identified as inadequate, 4 colleges have received LSC capital funding support during 2008–09 financial year, representing 1.1% of the college sector.

Whilst a number of different factors will have contributed to a college's financial health, it is recognised that the undertaking of a major capital project may have added additional challenges. However, as with all 13 identified colleges, the LSC will continue to work with the 4 colleges with capital projects to agree a recovery plan.

January 2009

Letter from Chair of PAC to Permanent Secretary, Department for Innovation, Universities and Skills (DIUS)

FE COLLEGE INFRASTRUCTURE REPORT

You will no doubt recall giving evidence to the Committee in November on this Report. The tone of the hearing was relatively positive, reflecting the progress made so far in improving the infrastructure of further education.

It was therefore with some surprise and concern that the Committee learnt that serious funding problems had apparently arisen since the hearing, resulting in the deferral of decisions on projects that were due for approval in the period December 2008 to March 2009. Keith Hill has shared with me some correspondence from Lambeth College, who are most concerned that their Brixton Technology Centre project could now be set back a year or more.

I am aware that a Ministerial Statement on 28 January announced that Sir Andrew Foster would conduct a review of the programme and produce a final report by April, and that there was a subsequent Ministerial Statement. This Committee is also due to produce its own report on the programme. In order that our report is well-informed, I would be grateful if you could assist by providing an early brief on the background to the current situation and the value for money implications including but not necessarily limited to:

(a) causes of the problem;

(b) likely impact on projects that have detailed approval, including those where the funding from asset sales or loan finance is now at risk;

(c) likely impact on projects with approval in principle, including where colleges have already incurred significant costs;

(d) likely impact on projects that colleges are planning but which have not yet been approved, including where colleges have already incurred significant costs; and

(e) forecast impact on the completion of the renewal programme.

In addition, please advise me whether you consider that you and your colleagues should have more clearly brought these concerns to the attention of the Committee at the hearing on 17 November.

I recognise that more detailed answers to some of these questions will come in due course from Sir Andrew's work, but would appreciate an early response to this request. I am copying this letter to Mark Haysom at the Learning and Skills Council.

10 March 2009

Letter from Ian Watmore, Permanent Secretary, Department for Innovation, Universities and Skills (DIUS)

Thank you for your letter of 10 March, regarding the Public Accounts Committee in November and the FE College Infrastructure Report, and the issues with the programme that have subsequently come to light.

In January, the Secretary of State agreed with the Learning and Skills Council (LSC) that Sir Andrew Foster would conduct an independent review of the LSC's handling of its capital programme. Sir Andrew's report was published on Wednesday 1 April—copies have been placed in the library of the House, and the Secretary of State has written to all Members enclosing a copy of the report. In response to the report, the Secretary of State also laid a Written Ministerial Statement in the House on Wednesday 1 April.

Your first specific query asked about the causes of the problem. Sir Andrew's key finding is that "a good policy has been compromised by the manner of its implementation." He goes on to explain that "the policy intent to transform the FE estate is clear and positive. But the implementation approach did not include a robust financial strategy or a regional or national approach to prioritisation". Sir Andrew's report also suggests that the scrutiny of the LSC capital programme by my Department was insufficiently rigorous. Many of my Department's objectives are achieved via arm's length bodies. Therefore, the Secretary of State has asked me to carry out a review of our arrangements with these arm's length bodies to ensure that we have the right processes in place going forward.

Recognising the deficiencies in how the LSC has managed the programme, its former Chief Executive, Mark Haysom, resigned on Monday 23 March. Geoffrey Russell, formerly of KPMG, was appointed as acting Chief Executive on the same day. He said that his first task was to urgently increase the certainty and clarity around the capital funding programme, and we will be working closely with him to achieve this. Mr Russell has immediately appointed an external team from the firm Grant Thornton to review the financial data held by the LSC about capital projects, and has appointed a Director in the LSC to be personally responsible for the capital programme, responding to Sir Andrew's conclusion that there was no clear overall responsibility for the capital programme within the LSC.

With regards to your second point, we do not currently believe that our announcements should mean any slowdown to the building projects already with approval and underway. The LSC's assessment has shown that the current economic downturn equally would not cause a slowdown in the delivery of these projects. The LSC is in regular contact with some key banks who lend to the sector, and there does not appear to be any immediate impact on finance availability to existing customers. Were this to change we would, of course, notify the committee.

Your third and fourth points asked, in essence, about the impact on those proposals yet to receive detailed approval. The LSC assessment has also shown that there are many more schemes currently in preparation than can be funded in this spending round. In line with Sir Andrew's recommendation, the LSC is now consulting the sector on the approach which should be used in prioritising schemes on needs-based criteria; we have asked the LSC to complete this as quickly as possible in order to give certainty to colleges.

Some colleges have expressed concern about the financial position in which they now find themselves. Ministers have been clear that no colleges will go bust because of the actions of the LSC. Where colleges do have concerns they should speak to the LSC immediately, who have established procedures for dealing with any college judged to be at risk, and who will work with the college to agree an appropriate financial plan so that they can continue to meet their financial obligations. Mr Russell is also appointing an external team of property specialists to assist the LSC as it begins shortly to meet with each college to ensure that the information held by the LSC is accurate and comprehensive and a sound basis for taking future decisions.

Siôn Simon, Parliamentary Under Secretary of State for Further Education, wrote to all College Principals on 23 March recognising the seriousness of the situation. Following the publication of Sir Andrew Foster's report, the LSC will also be writing out to all colleges confirming the above action and setting out clearly that my Department and the LSC would work with the sector to find the best way forward.

With regards to your final point, until the LSC completes its consultation and sets out more details for what the future programme will look like, that we cannot specifically comment at this time on when the programme will complete. However, we want to move as quickly as possible to bring some certainty to the forward programme, as funding allows.

As far as 17 November evidence is concerned, it is my belief that neither my co-witnesses nor I were conscious at the time of the scale of the delivery problems that have now transpired.

I recognise that I have been unable to provide you with full and definitive responses to all of your points. Should you have any additional questions or queries, please do not hesitate to get in contact with me. I am copying this letter to Geoff Russell at the Learning and Skills Council.

3 April 2009

Supplementary memorandum from Learning and Skills Council

At the Public Accounts Committee hearing the Committee requested information on the following areas:

Questions 12–23 (Nigel Griffiths): *on the provision of updated information on the regional spend and clarifying Table 7 in the NAO Report*

The table below shows the breakdown of the number of colleges' capital projects, the total cost of those projects and total LSC grant that have been approved by the LSC across all nine regions from April 2001 to the end of September 2008. This includes all projects that have been approved in detail and all those projects approved in-principle. The table also shows the percentage regional breakdown of guided learning hours (GLH) within colleges. The total cost of all the projects approved in detail since April 2001 to the end of September 2008 is £5.3 billion.

Table

REGIONAL BREAKDOWN OF IN-PRINCIPLE AND DETAILED CAPITAL APPROVALS 2001—SEPTEMBER 2008

Region	*Number of Projects*	*Total Cost £m*	*Total Grant £m*	*% of total project cost of all regions*	*% of total grant in all regions*	*% of total GLH of all regions*
EM	60	620	356	7	7	7
ER	57	787	376	9	7	9
GL	90	1,248	725	14	14	15
NE	36	511	276	6	5	6
NW	125	1,589	973	18	19	17
SE	130	1,247	800	14	16	15
SW	76	662	350	7	7	9
WM	100	1,102	582	12	11	12
YH	99	1,196	708	13	14	10
Total	**773**	**8,968**	**5,150**	**100**	**100**	**100**

The table below updates table 7 of the NAO report but also includes in-principle capital approvals as well as detailed capital approvals.

Table

FUNDING APPROVED FOR PROJECTS APPROVED BY REGION 2001—SEPTEMBER 2008 (IN-PRINCIPLE AND DETAILED CAPITAL APPROVALS)—NAO FIGURES IN TABLE 7 OF REPORT—BASED ON DETAILED APPROVALS AS AT MARCH 2008—IN BRACKETS

Region	*Number of Colleges as at 2007–08*	*Total grant as at September 2008*	*Grant/area £/sqm*
EM	25	356 (138)	588 (228)
ER	34	376 (137)	524 (191)
GL	53	725 (165)	677 (154)
NE	22	276 (156)	550 (311)
NW	60	973 (250)	747 (192)
SE	63	800 (306)	646 (250)
SW	32	350 (119)	432 (147)
WM	49	582 (260)	595 (266)
YH	40	708(178)	780 (196)

Table 15 on page 20 of the NAO report indicates that the East Midlands region only had one capital project above £20 million in value that had been completed as of April 2008. However there are a further six projects currently underway in the East Midlands where the capital project cost is greater than £20 million.

Question 24 (Nigel Griffith): *the provision of up-to-date information on the number of completed projects*

The table below lists the projects above £20 million that have been completed since April 2008 and updates the map and list (figure 15) on page 26 of the NAO report.

College	*Cost*
Herefordshire College of Technology	£20 million
Lambeth College	£21 million
Colchester Institute	£25 million
Redcar and Cleveland College	£26 million
Wakefield College	£29 million
Leicester College	£30 million
Epping Forest College	£35 million
Joseph Chamberlain College	£40 million
Middlesbrough College	£68 million

Question 25 (Mr Bacon): *progress on the project at City College Norwich*

City College, Norwich has submitted a capital application for the approval in-principle (AiP) for a £115.5 million development on the college's existing site. The project has a tentative build programme of 2010–12. The application is currently being assessed by the LSC and is due to be considered for approval in Spring 2009. The proposal itself is for the demolition of 26,855 m^2 of existing buildings and a total new build of 31,472 m^2 at the college's Ipswich Road campus. The proposal includes two linked buildings at the north of the campus principally housing the Schools of Hair, Beauty and Leisure Industries and Creative Arts and two buildings at the south of the campus, principally housing the School of Technology.

Questions 43–44 (Keith Hill): *information on the longer time taken on London college projects*

In Greater London the rate of capital project applications being submitted to the LSC for approval has broadly been comparable with the rest of the country. One of the reasons why Greater London appears to be slower in progressing applications is because on average in London it takes longer for a project approved in-principle to progress to approval in detail compared to the rest of the country. Those colleges that responded to the NAO survey showed that on a national basis the average length of time that it takes for a project approved in-principle to be approved in detail was 8.5 months. The average length of time for projects in Greater London was 16.5 months. The main reason cited anecdotally by colleges for this is the time taken to obtain planning and other statutory consents especially in the inner-London boroughs.

12 December 2008

Letter from Chair of PAC to Acting Chief Executive, Learning and Skills Council

FE COLLEGE INFRASTRUCTURE

As you are no doubt aware, your predecessor gave evidence to the Committee in November 2008 on the NAO Report *Renewing the physical infrastructure of English further education colleges*. After the serious failure in the programme came to light in January, the Permanent Secretary at the Department responded to the Committee's request for information. The situation has since developed and the Committee now needs further information before it can publish its report.

I should therefore be grateful if you could respond to the following questions by Tuesday 16 June, copying your response to the NAO.

(a) How and when will the additional £300 million, together with any other capital funding that may available, be allocated to projects so as to deliver good value for money?

(b) What will be the effect of the problems on:

— the aim of renewing the further education estate by 2016; and

— the financial strength of the sector and of individual colleges? (I note that the Association of Colleges reported that colleges with approval in principle estimated that they had spent £121 million on their projects to date and were committed to spending another £95 million in the next year).

(c) Please provide an update of the analysis included in the note supplied to the Committee in December (see Q22–Q23 of the hearing). The analysis showed the total sums approved by the LSC by region, and but we now need it to distinguish between the totals Approved in Principle and Approved in Detail. As with the previous version of the note, please could you split this analysis by region.

I am copying this letter to Sir Jon Shortridge at the Department for Business, Innovation and Skills.

9 June 2009

Letter from Geoff Russell, Chief Executive, Learning and Skills Council (LSC)

Thank you for your letter of 9 June 2009. I have set out below my responses to your questions.

(a) *How and when will the additional £300 million, together with any other capital funding that may be available, be allocated to projects so as to deliver good value for money?*

As set out in Budget 2009 there is an additional £300 million to support college capital projects in this CSR period. This funding is in addition to that announced in the grant letter in November 2008.

In December 2008, the LSC National Council decided to defer future projects while it conducted a review of the college capital programme. As you know, the Secretary of State and the LSC commissioned Sir Andrew Foster to review and report on the causes of the current difficulties and to recommend ways forward. The LSC is now in the process of implementing Sir Andrew's eight recommendations, all of which focus on changing the basis on which capital projects are determined from a demand-led system to one that responds to needs of learners.

In order to determine which projects are based on the most urgent and significant needs of learners, the LSC is working with specialist consultants to provide an objective review of colleges' proposals and to assess the projects against five sets of criteria (attached as Annex B). You will see that value for money is one of the criteria.

At the time of writing, the LSC has taken the results of the assessments and is discussing how an initial group of projects should undergo an immediate value for money challenge and then to proceed without further delay, to ensure that the additional funding is fully committed and used as intended.

I have written twice to all colleges to keep them informed of progress, and to explain how the additional funds will be allocated. These two letters are attached at Annex A and Annex C.

(b) *What will be the effect of the problems on: (1) the aim of renewing the further education estate by 2016; and (2) on the financial strength of the sector and of individual colleges?*

1. We envisage that the review per se of the college capital programme will have little impact on the rate of modernisation. All of the capital budget that has been allocated to the college sector is being spent. Indeed, we have accelerated that spend as a contribution to wider fiscal stimulus, and have added to the previously planned spending through the funding announced in the Budget. So all of that expenditure is being used to continue the excellent progress in renewing the estate. The progress achieved by 2016 will be the result of a 15-year investment programme, so the timing of the review will have little or no impact on whether the modernisation aim will be reached. The factor that will determine success by 2016 is whether there will be sufficient funding. The April Budget gave provisional allocations for the next CSR period through to 2013–14. Final decisions on funding for that and subsequent CSR periods will be taken as part of the Comprehensive Spending Review process.

2. It is too early to be definitive about the impact on the sector and on individual colleges that the changes will have. As noted above, colleges will benefit from the continuing high levels of capital investment, which will help to strengthen the overall financial position for many colleges. Ministers and the LSC have stated that no college will be placed into financial hardship as a result of paying for preparation costs while following appropriate procedures. A significant part of the current review is to collect complete and accurate information on the costs colleges have paid out, whether any colleges have taken on commitments beyond what has been agreed, work that may be relevant to future capital projects, the amount of fee support that the LSC has already paid to colleges and whether the financial health of any college will be worsened by their legitimate capital expenditures. The LSC has reserved some additional funding to support colleges in the latter category. The complete picture of the impact of the review on the sector and on individual colleges will not be known until all of the budget has been committed; until then colleges will not know whether the work they have paid for will benefit existing or revised capital plans.

(c) *Total sums of approved in-principle and approved detailed projects by region.*

Table 1 summarises all projects that have received detailed approval since 2001. It needs to be noted that the number of projects is higher than the number of actual colleges involved, as over the eight-year period one college may have had several separate projects. Many of these projects are relatively small and, under the delegated authority system, are not required to have in-principle approval. Therefore the number of projects with detailed approval is far greater than the number of projects with in-principle approval.

Since the last report, 72 further projects have been approved, with a total project cost of £1.6 billion and a total grant value of £1.1 billion. These amounts have been incorporated into Table 1.

Table 1

REGIONAL BREAKDOWN OF DETAILED PROJECT APPROVALS: 2001–09, AS OF 9 JUNE 2009

Region	*No of projects*	*Total Project Cost (TPC) £ million*	*Total Grants £ Million*	*TPC as % of all regions*	*Grants as % of all regions*	*GLH* as % of all regions*
EM	58	£450	£243	8%	8%	8%
ER	51	£539	£227	9%	8%	9%
GL	85	£833	£446	14%	16%	14%
NE	35	£443	£218	8%	8%	8%
NW	110	£992	£545	17%	19%	17%
SE	121	£849	£483	15%	17%	15%
SW	71	£416	£157	7%	5%	7%
WM	94	£753	£321	13%	11%	13%
YH	91	£555	£231	10%	8%	10%
Totals	716	5,830	£2,870	100%	100%	100%

*GLH refers to Guided Learning Hours 2007–08 which is the volume of funded curriculum activity

Table 2 summarises all projects that have received in-principle approval since 2001. As noted above, this table excludes the high proportion of smaller projects. The totals project costs and grant values are considerably higher than those reported in Table 1 due to a number of factors, including colleges reducing sizes of the projects by the time they reached the detailed application stage, projects not progressing for detailed approval and applications received for revised, similar projects. Table 2 therefore is a summary of colleges' plans for larger projects over the last eight years. The eventual number and size of projects receiving detailed approval is in Table 1.

Table 2

REGIONAL BREAKDOWN OF IN-PRINCIPLE PROJECT APPROVALS: 2001–09, AS OF 9 JUNE 2009

Region	*No of projects*	*Total Project Cost (TPC) £ million*	*Total Grants £ million*	*TPC as % of all regions*	*Grants as % of all regions*	*GLH* as % of all regions*
EM	13	£486	£313	6%	7%	8%
ER	20	£985	£523	13%	11%	9%
GL	26	£1,177	£702	15%	15%	14%
NE	14	£450	£288	6%	6%	8%
NW	41	£1,313	£816	17%	18%	17%
SE	27	£1,083	£686	14%	15%	15%
SW	16	£484	£296	6%	6%	7%
WM	25	£776	£431	10%	9%	13%
YH	23	£890	£530	12%	12%	10%
Totals	205	£7,645	£4,586	100%	100%	100%

*GLH refers to Guided Learning Hours 2007/08 which is the volume of funded curriculum activity

15 June 2009

Annex A

Dear [To all college principals by name]

The LSC Further Education Capital Programme

I am writing to bring you up to date with how we are progressing with the LSC capital programme and to inform you of the next steps in the prioritisation process both immediately and over the summer.

I wrote to you on 24 April with the good news that the Budget confirmed the availability of sufficient funds to enable around £750 million of new projects to be agreed. It is important to remember, however, that the costs of projects in development are very much greater than that, and that consequently we will need to very strictly prioritise according to need which cases can go forward at this stage. In that letter I explained how we intended to use newly determined needs based criteria to do that. I also set out the approach we intended to take in prioritising projects for the next spending review period.

We have made excellent progress since that letter, supported by colleges and key stakeholders. I have been heartened by the positive and constructive approach colleges are taking to supporting this process. This has been clear in the conversations I have had with many of you, but I do not underestimate the depth of concern that also exists. We are committed to a transparent and robust process and the support and input we have received has helped us on the way to achieving this, for which I am grateful.

Let me explain in more detail where we are in the process.

Prioritisation Criteria

I enclosed an LSC Council report (including the draft criteria) with my letter of 24 April. We have since consulted with the Regional Development Agencies, the Local Government Association, representative sector bodies and, of course our own non-executive members of the LSC Regional Councils, the Capital Committee and National Council, all of which have some members drawn from the college sector. In particular we had an extremely useful and constructive discussion with the newly established Capital Reference Panel.

The Capital Reference Panel was rapidly established with the help of the AoC. It includes representatives from every region as well as from the Sixth Form Colleges' Forum, the 157 Group and the National Association of Specialist Colleges. The Panel met with senior LSC staff on 29 April with DIUS and DCSF representatives in attendance. The meeting outcomes included constructive comments and advice on the prioritisation and selection criteria, the processes to apply these and other relevant issues. It will meet again on 15th June. The minute of the meeting is on our and the AoC's websites.

Attached to this letter (Annex D) is a short paper setting out the prioritisation criteria we have arrived at. You will see that the criteria reflect the Foster Review recommendation that we move to a needs-based approach with explicit priorities and choice criteria.

For this round of prioritisation we will also pay close attention to the urgency of some projects to proceed. Across each of the criteria, there may be reasons of urgency which will help a project score highly. For example, health and safety issues might score highly on condition of the estate. Other examples may be dependency on another infrastructure development, or loss of 3rd party income.

Next Stages in the Process

We recognise the need to approve the projects that are the most urgent and of greatest need as soon as possible. This is because some colleges are in a time constrained position, and because of the overriding need for national fiscal stimulus that was a key reason that funding for this year and next was provided by the Government.

To achieve this we have, as you know, considered readiness to start building as a key factor in our assessment of the projects, along with the other needs-based criteria. By readiness we mean projects that can begin building within the next three months or so. My thanks to those 200 or so colleges that returned the project questionnaires to our property consultants Lambert Smith Hampton. Those projects assessed as 'ready' are now being assessed against the prioritisation criteria using a methodology and process designed by independent consultants PricewaterhouseCoopers (PWC).

But we also need to drive down cost as far as possible to ensure the maximum number of projects in greatest need can be funded. As stated in my letter of 24 April, we had originally intended to have identified new projects to take to the Council meeting on 3 June for approval. However, many more colleges have put forward a case for their projects to be considered as "shovel ready" than expected, and so unfortunately we are not in a position to ask the Council on 3 June to approve individual projects. The Council will instead consider the evidence from PWC regarding the readiness assessment and the prioritisation process to inform a judgement about which colleges will advance. Therefore, no immediate announcements will be made as to which colleges have gone through to the next stage of the process; we will make that announcement later in the month.

As I explained in my last letter, that next stage will be a tough value for money challenge to the colleges that come out of the prioritisation process as those with the greatest need. To ensure the largest number of colleges can still benefit from these funds, more colleges will be chosen for that stage than can be funded according to the size of their original bids. The challenge for colleges will therefore be to radically reduce the cost and the scope and sourcing of the funding of their projects. Revisions to the scope of projects could include rethinking or deferring whole projects, or components of projects, in favour of a contribution to costs incurred to date and/or funds for refurbishment. We will only consider funding complete re-builds where they are absolutely necessary, which should be in only a few cases. Many colleges might want to come back to us with more modest proposals in order to maximise their and other colleges' chances of being funded, The more colleges can reduce scope and costs, the more of them will be able to secure funding. If they come back with more or less the same bids, we will be able to fund far fewer projects than we would have hoped.

This challenge is a vital element of the process. We want to be confident that each project is only as big as it needs to be to achieve the necessary impact. Also, we will want to ensure that every college is achieving the best possible price from their contractors and that the cost and extent of loan or other sources of finance (eg local or regional funding) are at optimum levels.

We will expect all colleges on the short list to come back with revised bids and plans by the end of the month, which will need to be capable of implementation this autumn, quickly. Depending on the cost and quality of the revised plans, we expect to start making decisions on urgent cases very soon after responses are in. We do not expect colleges undertaking revisions to incur significant extra costs in producing revised bids during this exercise, but we are willing to fund reasonable requests.

On the issue of costs already incurred, as explained in my first letter, we and the independent property consultants are working with colleges to assess the nature and extent of these using information supplied in the questionnaires and from discussions with our regional property advisers. We intend to come to grips with this in the next few weeks and may need to contact some of you for further information as part of the process. For those projects that will not be taken forward in this stage, we will consider maximising the longer term value of costs incurred, the accounting implications, borrowing flexibilities and other ways to help resolve problems. The latter will include pursuing with stakeholders whether there may be a role for the LSC in encouraging discussions with the sector and private sector financing partners. I reiterate that the LSC will ensure that no college is unable to meet its financial obligations as a result of decisions on these capital projects. We will address this issue very quickly after the final decisions are made on which projects will go forward this year.

Finally, we will come back to the process of funding projects in future years, which will be based on the outcome of the next spending review, as soon as possible after we have finalised discussions with those going forward this year.

Conclusion

We have set ourselves a difficult and demanding task in trying to bring forward projects for approval in a relatively short timescale to ensure that we can access and make full use of the additional funds that have been announced. We can only achieve this with the continued active participation of all parties.

I recognise that the LSC is not in an ideal position in relation to this issue, so I want to thank all of you for your understanding and cooperation in helping us to take forward these challenging and urgent tasks.

Annex B

QUALITATIVE CRITIERA

Education and Skills Impact	*Cont to Local Economic Regeneration and other priorities*	*Co-dependency with 3rd parties*	*Condition of estate*	*Value for money*
This criterion assesses the extent to which the project addresses current and future education and skills need and supports industrial activism.	This criterion considers the wider economic and regeneration impact of the project.	This criterion looks at the practical implications of not proceeding with the project ad the leverage ratios involved.	This criterion evaluates the existing estate needs and the extent to which they are addressed by the project.	This criterion assesses the extent to which the project demonstrates that it has gone through a process to maximize vfm.
Employers and Specialization	Level of deprivation	Integration and interdependencies with other important projects in the locality eg BSF, regeneration schemes.	Condition	Cost

Education and Skills Impact	*Cont to Local Economic Regeneration and other priorities*	*Co-dependency with 3rd parties*	*Condition of estate*	*Value for money*
Technology enhanced learning	Economic impact including support to Inward Investment	Interdependencies with 3rd party funding.	Suitability	Quality
Impact on 14–19 year olds	Advancing equal opportunities and social impact		Sufficiency	Capacity
Expansion of high performing providers	Environmental impact		Urgency eg sale/ closure of buildings, links to other phases of development	Readiness to deliver
SEN provision				Sustainability and longer term affordability

Projects have been scored from 0–5 against each criterion, with 5 being the highest score.

Annex C

24 April 2009

The LSC Further Education Capital Programme

This sets out how we are taking forward the FE capital programme. Since I wrote to you a few weeks ago, we have worked closely with DIUS and DCSF to present a strong case for additional capital funding. We have also begun implementing the recommendations in the Foster Report and the approach explained in this letter is consistent with these.

The Budget announced additional capital funding of £300 million in the current CSR period which will allow the LSC to give approval to a limited number of projects starting in 2009–10. Recognising the long-term nature of capital projects, the Government are planning a continuing FE capital investment programme in future years, with a planning assumption of £300 million a year from 2011–12 to 2013–14 to be confirmed at the next Spending Review. This provides a provisional £1.2 billion in total to 2013–14.

You will be aware all such commitments into the next spending round are provisional. This is welcome news and reflects the importance of the sector to the Government and for the economy. It should allow us to develop around £750m of new schemes.

This letter sets out how we intend to use the needs based criteria in relation to the additional £300m in 2009–10 and 10–11 to identify those with the most urgent and greatest need projects, as well as the approach we intend to take in prioritising projects for the next spending review period.

The other major issue I recognise is of concern is how we support colleges which have incurred costs in developing their project proposal and in anticipation of their project being approved. I will explain below how we are dealing with this.

Developing the Criteria

Attached to this letter is the paper approved by the LSC National Council at its meeting on 22 April 2009. This sets out the proposed new criteria and process for selection. The Foster report made it clear that the criteria should be needs-based and set in the wider context of learning and skills; these draft criteria reflect that recommendation.

We want to be as inclusive as possible in consulting on this, but also have very tight timescales to meet in order to deal with these urgent issues; our aim is to finalise by 15 May in order to have new projects approved at the 3 June National Council meeting. This is very ambitious and will require close co-operation with all colleges, but it is one which we were keen to offer to Government to secure the new funding.

A key part of the consultation, based on the recommendations in the Foster report, is to use a panel of college Principals convened with the support of the AoC. This meets on 29th April and will provide important input. We are also consulting with the Local Government Association and the Regional Development Agencies.

Urgent and Greatest Need Projects

You will see in the attached paper a tight timetable for approving the urgent and greatest need projects. We will use readiness to start building as a gateway for all projects before the other criteria are used. By readiness we mean projects that can begin building within the next three months or so. They must, of course, also meet the other criteria, offering significant benefits to learners, the local community and economy.

To maintain objectivity, we have appointed PricewaterhouseCoopers to assist in the drafting and revision of the criteria, as well as in the development of a scoring framework which we will use for the first time in helping the Council approve a group of projects at its meeting on 3 June 2009.

To meet this timetable we have appointed property consultants Lambert Smith Hampton (LSH), to review all of the capital applications currently extant. Their first priority will be to identify those projects that are ready to be on site and building this summer, because these additional funds are only available this year and next.

To help with this we will be issuing a self-assessment questionnaire for all colleges with current project proposals to complete. This will enable you to confirm your college's current estimates of costs, including those incurred to date and the timetable in which these project proposals might proceed and any savings or improvements in value for money we might achieve to help these funds go further. This information will help us to quickly identify those projects than can make substantial progress on site this year and next year.

We will also be adding in a rigorous value for money assessment of all of the projects which are ready to go. I would expect the costs of projects to reduce because of the reduction in construction costs. I would also expect the scale and scope of projects to be more modest in order to minimise costs. There may also be situations where colleges may decide to simply ask for more modest sums to refurbish.

Prioritisation of Projects for The Next Spending Review

It is clear that the urgent and greatest need projects will not include the majority of college projects which either have Application in Principle approval, or have been seeking such approval.

As noted above, we will have a separate process for these and other new proposals from colleges which provides us with a new needs-based priority list of projects by spring 2010. That priority list will be used to approve projects as and when funding becomes available; we will know more about that when the outcome of the next spending review is known.

This prioritisation process will be based on the same criteria set out in the attached paper, perhaps with some development in light of the experience this summer. We will also work very closely with Government, local authorities and RDAs in developing the criteria and the processes that will be adopted by our successor bodies from April 2010.

Dealing with Costs Incurred by Colelges

We recognise that colleges with projects that cannot go forward now for funding in this year or next may have to write off some development expenditures in their accounts, though some expenditures will be of longer term value.

The LSC will work with each college with the help of independent property consultants to assess how the longer term value of expenditures can be maximised, as well as to understand the nature and extent of any liabilities. Through its normal financial intervention process, the LSC will ensure that no college is unable to meets its financial obligations as a result of decisions on capital projects.

Once we have a full analysis of the costs incurred and their nature, we will be able to identify those cases where a contribution to such costs from the LSC may be justified. I would hope to be able to communicate back to you on this by the beginning of June.

To repeat our earlier messages on this subject, colleges should continue to avoid committing any further expenditure on the development of projects where there has not been full approval to go forward.

The prioritisation process for college projects for the next spending review period will not require any more than an outline proposal for new or modified existing projects. We want to streamline the initial assessment process in order to minimise the costs of preparing a proposal at that stage. We will issue further guidance on this in due course.

Achieving Better value for Money

As with the urgent and greatest need projects, there is no doubt that there has to be a new focus on achieving value for money as we go forward with this programme. The expectation is that all colleges will consider the scale, scope and costs of their projects very carefully; with limited funds we will want to ensure that we maximise the impact for learners, employers and communities in every project we approve.

We have instructed Lambert Smith Hampton to review all of the projects in the pipeline that are now unlikely to proceed for the time being so that we can review with you their scope, scale and timing. We want to have the best possible information to hand to inform the comprehensive spending review next year when there may be a further chance to seek additional funds.

These college-by-college reviews will include detailed analysis of spending on project costs. This will be an extensive process, as there are potentially more than 150 projects to be considered. The process will include colleges completing a self-assessment questionnaire that the consultants will scrutinise. Through bringing in consultants we aim to complete the work as quickly and as objectively as possible. In the taxpayers' interest, we will also be very hard nosed in driving for much better value for money and our consultants will work with you and the LSC's own staff to achieve that.

LSC Management Changes

The LSC has already made changes to the way the capital programme is managed including oversight by a new National Projects Director, David Hughes, and a sub group of the Council. I will be making further changes to the way the capital programme is managed which will help in this transition year from the LSC to the SFA and YPLA. I hope to be able to announce these changes, along with wider management arrangements shortly.

I encourage you to work with us over the coming weeks and months as we go through these difficult processes. I am sure that you share with me the desire to see every penny spent having a great impact on learners, employers and communities. I hope to meet many of you over the coming months and no doubt we will have much to discuss.

I would be most grateful if you could copy this letter to your Corporation Chair.

Annex D

LSC CAPITAL PROGRAMME: Proposed Project Prioritisation

Summary

This paper sets out the LSC's proposals for:

- Agreeing revised draft project prioritisation criteria.
- The process and timetable for consulting with the sector on the prioritisation criteria and process.
- The process and timetable for selecting projects to be funded should additional funding be made available in the Budget.

Recommendation

Council is invited to discuss and comment on the proposed draft criteria and the prioritisation process and agree to the next stages as set out in the process:

- Consult with colleges and stakeholders on the draft criteria and prioritisation process.
- Delegate the final approval to the Capital Steering Group to meet w/b 4 May.
- Establish a National Capital Committee meeting in w/b 25 May and invite Regional Chairs to be part of that meeting.
- Reserve significant time at the 3 June National Council meeting for final approval.

Process so Far

At its meeting on 4 March 2009, the LSC National Council agreed that it would consult the sector on the criteria for prioritising capital project proposals. A limited consultation exercise occurred with a meeting of over 40 college principals as well as many comments from Council Members and Regional Chairs.

A revised set of criteria has been shared with DIUS and with Ministers and the final draft criteria are attached to this paper.

There is a possibility that some new funding will be made available in the Budget on 22 April 2009. If that happens, we will aim to announce a very short and focussed consultation on the criteria and a rapid process for prioritising a small number of new projects within a few days of the Budget. The urgency in this process reflects the economic reality of the potential resource being made available.

The Foster Report recommended "an early and open process of engagement and consultation with the college sector. A panel of college principals should be identified to work with LSC officials and DIUS representatives. This group should confer with the Association of Colleges (A0C), the Sixth Form Colleges' Forum, the 157 Group, the Local Government Association, local authorities and Regional Development Agencies". A panel meeting has been set for 29 April, convened by the AoC to reflect the membership recommended by Foster. Similar meetings are being arranged with the LGA and the RDAs; Regional Ministers will be formally consulted as well as to allow for regional input of prioritisation issues that DIUS and the LSC may not capture and allow MPs a chance to channel their input in through Regional Ministers.

This set of consultees, along with Regional Councils, will advise and support the LSC National Council to agree a new set of prioritisation criteria.

Lambert Smith Hampton is being commissioned to verify and, where appropriate, challenge individual college projects and their costs estimates, establish when colleges' projects can commence work on site and also to verify expenditure incurred to date. Whilst the immediate priority will be to identify projects that can start on site quickly, this process will be continued for all project proposals in the pipeline. PricewaterhouseCoopers is also being commissioned to help establish the prioritisation process and apply the criteria across all of the projects to ensure objectivity, transparency and fairness.

> The criteria need to be applied very rigorously in a way that is much more selective than in the past, to identify the projects meeting the greatest need within a potentially very tight funding envelope.
>
> Proposed prioritisation criteria:
>
> — Readiness (ie the ability to start on site by particular date. Readiness to start will act as a gateway through which all projects would need to pass before being considered against the other criteria for the first tranche of projects to be announced if the Budget provides additional funding for this year).
>
> — Educational and skills impact.
>
> — Overall value for money.
>
> — Present condition of the estate.
>
> — Co-dependency with third parties.
>
> — Contribution to local economic regeneration and other priorities

PRIORITISATION CRITERIA

We propose the following criteria are used to prioritise projects (projects will be scored against each of these criteria and the projects with the highest scores will be top priority for any available funding). LSC will work with the consultants to produce explicit descriptors for each criterion, to ensure that the necessary consistency occurs and to support a transparent and clear scoring system to help prioritisation.

1. *Readiness*

All colleges with project applications awaiting in-principle or detailed approval will be asked if they consider their projects can commence on site within 3 months or so. (Readiness will act as a gateway through which all projects would need to pass before being considered against the other criteria for the first tranche of projects to be announced shortly after the Budget.)

The LSC is commissioning consultants who will then meet with each college that wishes its project(s) to be subject for prioritisation assessment. All projects which pass through the readiness gateway will then be assessed against the other criteria. The LSC National Council will use the criteria to determine the order in which projects will be supported in the future.

2. *Educational and Skills Impact*

In the publication Building Colleges for the Future (BCF) it was clearly stated that the rebuilding and modernisation of the estate is not an end in itself. The educational and skills impact of projects is already assessed against the existing LSC projects criteria through the educational case presented for each project. Projects should be assessed according to the extent to which they contribute to key goals and priorities as set out in the Government Investment Strategy 2009–10, in the LSC Priorities for Delivery and in the LSC Capital Strategies.

Projects will be considered against the following specific educational and skills development criteria as detailed in BCF and other policy documents:

— greater specialisation so that businesses have access to a wider range of industry specific skills development for their current and future employees;

— ensuring technology-enhanced learning has been integrated into the review and planning of the curriculum, delivery methods and learning styles;

— securing 14–19 reform including extension of compulsory participation in education or training to age 18;

— supporting high performing providers of 16–19 education and training and adult skills development to expand; and

— securing high quality provision for learners with learning difficulties and disabilities.

3. *Overall Value for Money*

The judgement that must be made is how all the outputs of the project—educational, skills and other—stand in relation to total costs. The principle that no project should be funded that does not represent good value for money must be continued. Other things being equal, giving priority in terms of sequencing to projects with the highest value for money will maximise the value for money of the entire capital programme.

The existing LSC assessment tools will be used, and more challenge will be made on costs subject to sufficient time being available to apply them. There may be opportunities to reduce the scope and scale of projects in order to reduce costs and ensure that the available funding spreads as far as possible.

4. *Present Condition of the Estate*

There will be a variety of possible reasons for a project being considered urgent and which, depending on their nature and urgency, might outweigh other factors. These include: the present condition of the estate and the likelihood for further rapid deterioration in the absence of redevelopment; where work has been undertaken in advance of the project being granted Approval in Detail, such as decant or demolition; cases where colleges have been encouraged to phase their projects and the final phases need to be completed for the project to be successful; pressing health and safety concerns; dependency on other development or land sales that are time critical; interdependency where phases of capital development that are already underway and/or near completion; risks to investments in development work that have already been made. It is important that urgency is not simply claimed but is objectively evidenced

5. *Co-Dependency with Third Parties*

Many college capital projects are involved contractually or informally with other parties that share an interest in the proposed development. There are many examples of collaborations with, for example, schools' reorganisations, regeneration schemes, urban regeneration in partnership with Regional Development Agencies, local authorities and employers. In some cases there is a limited time within which commitments need to be made in order to secure the commitment and funding from other parties. Again, it is essential that relevant third party issues are well evidenced.

6. *Contribution to Local Economic Regeneration and Other Priorities*

Investment in new college facilities can be an important catalyst for other public and private investment, and can be major components of regeneration schemes. College projects will have a direct effect on increasing Apprenticeships, improving employment and other community benefits, especially where the Index of Multiple Deprivation can supply relevant evidence of need. College projects may also be an integral part of wider local strategies for driving up participation and achievement in education. Positive impact on communities includes optimising access to vocational training, supporting sustainability, reducing the carbon emissions with all new college projects being zero carbon by 2016 and support access to technology.

These factors need to taken into account where a delay in proceeding would put the achievement of these other "outputs" at risk. Once again, there needs to be strong evidence to support this view.

Proposed Consultation Process and Timetable

The LSC has already started consulting with the Association of Colleges. On 20 March 2009, the LSC met with a "reference group" of about 45 college principals to review the draft prioritisation criteria. Comments were recorded and incorporated into further iterations.

We now need to proceed swiftly with further consultation, which needs to reflect Foster's recommendations on how we should consult the sector.

KEY STEPS AND TIMETABLE

Key Steps	Timing
Revised draft prioritisation criteria developed from consultation with AoC and from comments from LSC Council Members and Regional Chairs	17 April
Comments received from DIUS and draft prioritisation criteria and process circulated to LSC National Council members	21 April
Comments back from LSC National Council	22 April
Final draft prioritisation criteria and process developed and circulated to AoC panel, LGA and RDAs	23 April
Meetings with AoC Panel of Principals, RDAs and LGA, to discuss draft	29 April
Initial LSC statement on criteria and process as part of post-Budget "comprehensive statement"	w/c 27 April (or possibly 24 April)
Final criteria, weightings and process approved and announced by LSC National Council	w/c 4 May—by Capital Steering Group which is chaired by Chris Banks

PROPOSED PROJECT SELECTION PROCESS AND TIMETABLE

Our current best assumption is that there may be additional funding for a small number of projects to be approved rapidly and then a more lengthy second stage of assessment against the criteria for other projects in the pipeline

We propose a swift, streamlined and transparent selection process for the first round of project prioritisation. This process needs to be completed quickly so that projects can start on site as soon as possible.

KEY STEPS AND TIMETABLE

KEY STEPS	TIMING
Prioritisation criteria, weightings and process finalised	w/c 4 May by LSC Capital Steering Group
Consultants to carry out evidence gathering/ verification process to ensure we have up-to-date, comprehensive and correct information on potential projects	27 April self assessment questionnaire to college w/c 4 May consultants interview potential early starters and continuing assessing project data Process needs to be completed by 15 May with final report for this stage to inform selection process
Consult RDAs and Regional Ministers to allow for input of regional issues and invite intelligence and comment on the all of the proposals which have got through the readiness gateway against the agreed priority criteria to assist in the scoring process.	Mid-May
Invite Regional Councils (supported by their Capital sub groups) to provide similar intelligence and comment on all of the proposals which have got through the readiness gateway against the agreed criteria to assist in the scoring process.	Mid-May
Cross LSC National Officers group meeting to score potential projects against criteria	w/c 18 May
LSC National Officers group send recommendations on projects to be funded to LSC National Capital Committee (enhanced with regional council chairs attending]	w/c 18 May
LSC National Capital Committee meeting to score potential projects against criteria enhanced with regional council chairs attending	w/c 25 May
National Capital Committee send recommendations to LSC National Council	27 May
LSC National Council meeting to approve National Capital Committee recommendations	3 June

David Hughes

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