

A Review of the Capital Programme in Further Education

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Summary and recommendations

Introduction

The aim of this review is to put back on track what has generally proved to be an excellent programme of capital investment in the further education (FE) sector.

In 2005-06 the Department for Education and Skills (DfES) announced a major boost to the ongoing capital programme for FE colleges. This reflected recognition of the crucial importance of skills in securing future prosperity for the UK and the healthy development of its young people.

The programme has transformed over half the estate of FE colleges, with six hundred projects in more than three hundred colleges. (The case study at Annex 1 provides a single but telling illustration of the impact of the programme.) The benefits for countless students, staff and entire communities have been profound. The potential improvement in skills in the economy adds to our global competitiveness.

But the programme has been mismanaged. Mistakes have been made and there is disruption and agitation as a result. The key challenge now is to look forward and find ways of rebuilding confidence and restarting the college renewal process which is so important for our future.

On 17 December 2008 the Learning and Skills Council (LSC), who manage the capital programme, declared a three month moratorium on further projects while it conducted a review. A large surge in college proposals had opened an untenable gap between the resources identified and the cost of projects underway or in the pipeline. The moratorium caused consternation and great disappointment in FE colleges and continuing uncertainty about the future.

When the LSC completed its review of the project pipeline on 4 March 2009 it was evident that 253 projects were already underway or fully approved. Eight projects deferred from October were also given the go-ahead. A further 79 projects had already received the first stage of approval in principle, with a requirement of £2.7bn from the LSC. A further £3bn would be needed for the 65 colleges that had submitted proposals for approval in principle. Clearly, there were more applications than could be funded in this spending round and not all schemes could be implemented in the original timescales envisaged.

I was asked on the 28 January 2009, by the Secretary of State for Innovation, Universities and Skills and the Chair of the Learning and Skills Council, to review the management of the capital programme. My terms of reference were in essence to assess:

- the main causes of the increased demand for capital funding
- the LSC's management processes and how they could be improved
- any further steps that could be taken to ensure that in future the demand for capital funding is kept in line with budgeted resources.

I have tried to give a full, honest and open account of what has happened, because it is in all our interests to understand and learn.

I have met with many representatives of the college sector and the governmental and other national bodies involved with the programme, and I am grateful for the time people have given to this.

Causes of the demand surge

Uptake in the programme was initially slower than the LSC expected. It began to promote it intensively, with local teams soliciting proposals actively from colleges and encouraging them towards ambitious, high quality schemes. News of successful projects spread through the sector and colleges that had held back began to engage. The rate at which proposals were coming forward began to increase, as did their cost and also the *share* of cost to be borne by the central programme.

The trend was reinforced by concerns in the sector about the impact of organisational changes at the national level. The establishment in 2007 of the Department for Innovation, Universities and Skills (DIUS) and the Department for Children, Schools and Families (DCSF), replacing DfES, raised anxieties that resources thought ringfenced for colleges might be diverted to schools. Moreover the planned demise of the LSC in 2010 and the creation of two new agencies led to fears for the future of the capital programme as a whole.

These and other pressures drove the surge in demand during 2008.

Conclusions

The responsibility of DIUS was to determine and monitor the implementation of broad policy. Effective implementation was the role of the LSC. There were warnings of overheating as early as February 2008, but there was delay and confusion in addressing them. The right groupings did not have the right information at the right times, and opportunities to intervene were missed. Then, towards the end of the year, the extent of the problem was finally recognised and the moratorium put in place. There were further failures in the way this was communicated to the sector. At the heart of the problem is the absence of a proper long term financial strategy and inadequate management, information and monitoring.

I have been forced to conclude that the crisis was predictable and probably avoidable. Certainly, it could have been mitigated if action had been taken earlier. The final confusion in communication made a bad situation worse.

A good policy has been compromised by the manner of its implementation. 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. Skills development is crucially important and much has been achieved in lifting the FE estate. But the present management crisis has put further improvements at risk. There are some specific issues to record:

- The FE capital programme has been demand-led, with colleges themselves and their communities setting the direction and the pace. Decisions have been made on the basis of the inherent qualities of local proposals in the absence of an overarching, needs-based framework of policy and priorities against which to appraise them.
- Such a framework would be accompanied by a financial strategy which set out the resources required to achieve overall objectives and their availability and expenditure profiles over time. This would be the essential basis for monitoring and controlling the incidence and level of cost commitments. No systematic framework of this kind has been in evidence; this was a fatal flaw.

- These deficiencies pose significant risks. On the one hand, developments may not in fact occur where they are most needed; and on the other hand, as experience has shown only too clearly, financial resources may be overcommitted. These risks have not been recognised and addressed with appropriate diligence. General management and corporate governance functions have failed to maintain a clear-sighted overview of the position and key committees have been insufficiently accountable.
- Colleges themselves were allowed to put too much store by success at the Application in Principle (AiP) stage and too little by the later Application in Detail (AiD) stage. This led in some cases to costs being incurred and commitments made prematurely. This issue needs urgent management attention, on a case by case basis to examine the authorisation process and to establish the correct way forward.
- Preoccupations with organisational change, particularly the forthcoming demise of the LSC and the establishment of two new agencies – all coming hard on the heels of the establishment of DIUS and DCSF – distracted attention from core ongoing business: people took their eyes off this ball.
- There has been insufficient clarity and understanding around the relationship between the LSC and DIUS, and their respective responsibilities, authority and need for information. Meetings have been frequent but evidently not effective in foreseeing and averting recent difficulties. The monitoring was focussed on inadequate management information. DIUS has a range of arm's length arrangements across its programmes of work and it is crucial that it learns the lessons of what has gone amiss in its performance monitoring relationship with the LSC, particularly in advance of the emergence of the new Skills Funding Agency.

Responsibility

I believe that the most significant responsibility for these problems rests with failures in the general management and financial management of the LSC and the fact that its corporate governance systems (and specifically its Audit Committee's risk register management) did not focus on financial prediction and control more effectively. Indeed the original implementation plan did not have a robust approach to financial management or prioritisation.

DIUS monitored the LSC during the period and had most of the information that was actually collected and held centrally by the LSC. Senior staff in DIUS could have probed more actively the robustness of the forward projections of future funding commitments. Their challenge was insufficiently incisive to uncover ongoing flaws in implementation.

Recommendations

My recommendations aim to establish a platform for recovering confidence in an essentially good policy speedily, and in a way that is fair and transparent:

1. The priority business is to agree how the present demand-led approach can be replaced by a needs-based approach with explicit priorities and choice criteria. These should inform the necessary decisions about the future capital programme.
2. To this end there must be an early and open process of engagement and consultation between DIUS, the LSC and the college sector. A panel of college principals should be identified to work with LSC officials and DIUS representatives. This grouping should confer with the Association of Colleges, the Sixth Form Colleges' Forum, the 157 Group, the Local Government Association, local authorities and Regional Development Agencies.
3. The process must be grounded in fully accurate and detailed information about capital schemes in the pipeline. There should also be a preliminary mapping of potential needs indicators to assist the discussion process.
4. A realistic assessment is required, founded on excellent information, of individual colleges that have incurred expenditure, with high expectations, but have no guarantee of final approval for their proposals. A balanced approach is urgently required to expedite clarification of their position. It should include a process of structured self-assessment against agreed criteria. Experience in other public sector settings suggests this would benefit the colleges themselves and help to move things forward quickly.
5. In order to achieve speedy implementation, it will be essential to have a blended approach of open consultation with the sector, matched by a small dedicated project management group which drives a highly organised programme across LSC and DIUS levels. It must restore confidence with its professional approach and urgency of action. There is a need for balanced reflection and consultation for the first task and excellent project management skills for the second.
6. Talks should be held with HM Treasury to reinforce the importance of skills development in the context of national economic recovery, and global competitiveness, and to review resourcing for the continuing capital programme. It is essential that a robust recovery plan is demonstrated.

7. Future development must take place in the context of a comprehensive and competent financial strategy that supports needs-related planning.
8. Active consideration must now be given to the future working arrangements of the Skills Funding Agency and the Young People's Learning Agency. Key issues for resolution include: the formulation of a robust investment strategy, the development of best-practice procurement methods in the light of experience in other public sector programmes and approaches to the engagement of partner organisations. The nature and management of their relationship with DIUS and DCSF must be clarified and it will be essential to design a regulatory function that inspires confidence within and beyond the FE sector itself.

Introduction

1. I have been asked by John Denham, Secretary of State at the Department for Innovation, Universities and Skills (DIUS), and Chris Banks, Chair of the Learning and Skills Council (LSC), to review the management of the further education capital programme. The terms of reference for the review are to assess:
 - the main causes of the increased demand for capital funding;
 - the LSC's internal processes and scrutiny of the capital programme and how these could be improved; and
 - any further steps that can be taken to ensure that for the future the expectation and demand for capital funding are kept in line with budget requirements, bearing in mind the development of the Skills Funding Agency (SFA) and Young People's Learning Agency (YPLA) and the proper role of DIUS and the Department for Children, Schools and Families (DCSF) for capital matters.
2. It may be sensible to say briefly at the outset what has occasioned this inquiry. My perspective is that:
 - In November 2005 the Department for Education and Skills (DfES) published my review of the future role of further education (FE) colleges, entitled *Realising the Potential*.
 - This was accompanied in the 2005 Budget by the major boost of an additional £350m of investment in the FE capital development programme, to be managed by the LSC¹ across 2008-09 and 2009-10. The aim was to transform the FE estate, enabling step improvements in the capacity and capability of colleges and the quality of their contribution.
 - Initially, the programme was slow to gather momentum and even as recently as in 2007-08 the annual budget appeared to be underspent.
 - Then, early in 2008-09, for reasons we will examine, there began a surge in demand for capital. Concerns about the alignment of expectations and resources intensified. The surge became a veritable tsunami, leading, as the year turned, to a pause in approvals and great consternation in the field.
 - Since then a small number of new developments have been finally approved but a substantial number of others are being held in abeyance pending clarification of the resource and management position.

¹ The organisation, staffing and budgets of the LSC are set out at Annex 4.

3. In essence, the issues for this review are whether the evidently distressing and disruptive mismatch between expectations and resources could have been anticipated and avoided, how this might have been achieved and why it was not. What should now be done, and what are the lessons for the future?
4. I have met with representatives of the FE sector itself including the principals of a cross section of colleges affected by the conduct of the capital programme; the Association of Colleges (AoC), the 157 Group and the Sixth Form Colleges' Forum; senior officials from the LSC, DIUS and DCSF; and stakeholders in banking, construction, professional services, the Local Government Association, Partnerships UK and the National Audit Office (NAO). In addition, several organisations have made written submissions. I am very grateful to everyone who has contributed. Annex 3 lists those whom I have met.
5. This report restates the importance of FE and its improvement, identifies the reasons for the demand surge and recounts the events leading to the pausing of the programme. It goes on to draw out a number of key management themes and lessons to be learned. My full recommendations are at Annex 2.

Section 1

Why this matters

6. As I argued in *Realising the Potential*, the UK has a prosperous history but in a keenly competitive world marketplace its future depends on its skills. We need to maximise and fulfil the potential of our young people to contribute knowledge and skills of world class quality. A prosperous future and good public services depend on this. But it is not solely about national success. It is also about how countless individuals have opportunities to meet their aspirations. In reality, disappointing literacy and numeracy skills suggest great reservoirs of disappointment and poor self esteem, particularly and unsurprisingly amongst the least advantaged, of which the consequences may be disengagement and unrest.
7. To play its fullest role in the world economy, the UK needs an education and skills system that gives it a flexible pool of skilled and mobile employees with routes and opportunities to develop personally and contribute socially.
8. In recent years, Government has invested heavily in the estate, buildings and capital equipment of the FE sector. There has been a sustained transformation of capacity to develop the skills of the nation. In just a few years the capital programme has redeveloped more than half of the country's FE college estate: 326 current colleges have benefited (345, discounting subsequent mergers); 618 projects have been completed, largely on time and close to budget, and the size of the estate has been reduced from 9 million to 7 million square metres since 1993. The programme has delighted the sector and enabled it to create state-of-the-art, inspiring environments for students and staff, with increasing numbers of people participating in learning, more of them progressing into higher education and step improvements in the nation's skills capital.
9. My report should not therefore be received as a tale of doom and gloom because the achievements have been tremendous. But there is further to go and important things are on hold. The focus of my work is to learn the lessons and to identify a positive way of repairing damage and moving forward.

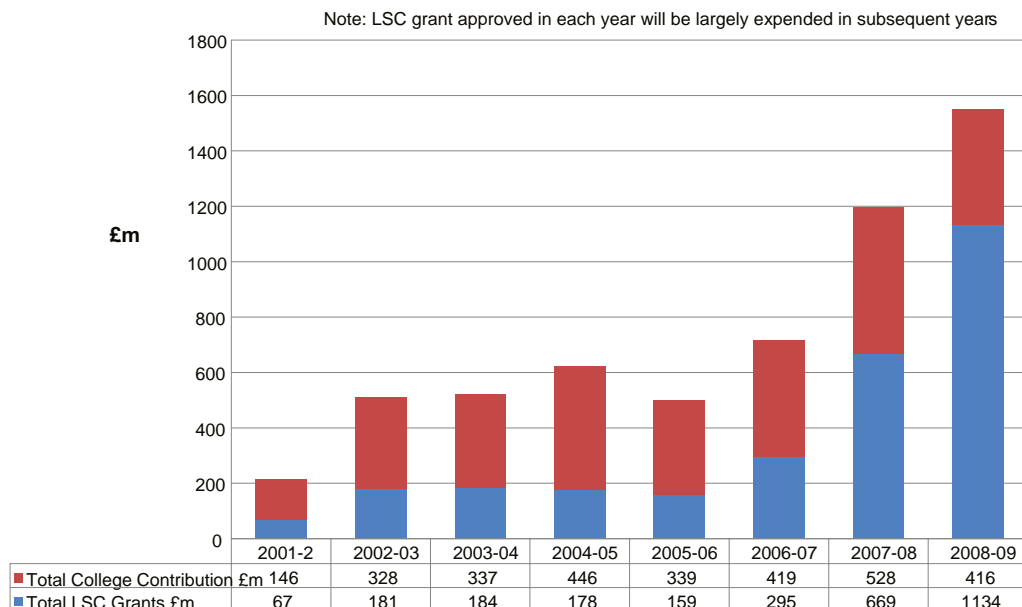
Section 2

A gathering storm

10. The first phase of implementation took time to gain momentum.

The chart with table summarises the history of the programme, since the start of the LSC, in terms of approved project costs and associated LSC capital grant contributions. Between 2001-02 and 2008-09 projects with a total cost of £5.8 billion were approved in detail with a Council contribution of £2.9 billion. Approximately 55% of the estate has been renewed. The cost of completing the outstanding 45% has been estimated (in LSC Council meeting papers for 17 December 2008) at between £8bn and £16bn with average capital grant rates of the order of 75%.

FE capital approved projects: costs and LSC grants 2001-09



11. Despite technical incentives to colleges, proposals at first remained stubbornly behind the curve of the total capital budget. This was partly because the LSC funding regime specified the staging of projects and required colleges to raise significant proportions of early funding from local resources (see box). The financially strong institutions were the first to get involved as they were able to raise a high proportion of initial costs.

The LSC affordability regime and two-stage applications

Colleges had to use their reserves, realise assets through sale of land, lever in resources from Regional Development Agencies and other public and private sources, and take out a commercial loan of long-term borrowing up to 40% of each college's annual financial turnover. The LSC then calculated its grant level to fill the funding gap between the project costs and the resources raised privately and from other public sources. Some of these elements received favourable comment in a July 2008 National Audit Office report, *Renewing the physical infrastructure of English further education colleges*, because this approach enabled colleges to part-fund projects by disposing of surplus assets and by borrowing.

There was a two-stage applications process for projects with a gross cost in excess of £10 million:

- Application in Principle (AiP) in which the overall shape, scale, phasing and educational case for the project were agreed.
- Application in Detail (AiD) in which the detailed specification and cost schedule were agreed.

12. The scale of projects and percentage grant were both in fact on a discernible upward trend as the table below shows. The rate at which LSC contribution was required rose by over 40 percentage points between 2005-06 and 2008-09.

| Scale of applications for FE capital projects | | 2005-06 | 2006-07 | 2007-08 | 2008-09 |
|---|-------------------------|---------|---------|---------|---------|
| In principle | Average Project Size £m | 37.5 | 32.1 | 42.1 | 42.8 |
| | Average Grant | 33% | 54% | 74% | 76% |
| In detail | Average Project Size £m | 7.2 | 10.5 | 19.0 | 21.8 |
| | Average Grant | 32% | 41% | 56% | 73% |

Note: 'In detail' project applications are often single phases of multiple phase developments approved as a whole at the earlier 'in principle' stage.

13. By early 2008, powerful drivers were increasing both the amount of grant support required from the LSC, and the speed at which proposals were being brought forward for approval. This was the weather system that generated the storm, and the tsunami of autumn demand in project numbers and costs:
- The good news about the success of the programme had spread. Colleges that had been sceptical or wary at the outset saw the impact on colleges that had been modernised and renewed. Principals noted the competition locally and understood the need to attract learners and their employers and to work collaboratively with schools. Even small colleges and more conservative governing bodies were preparing to engage.
 - Colleges bringing forward proposals after the first wave of 'early implementers' were working on relatively less strong balance sheets and narrower financial margins and required a higher percentage of grant support. Those colleges engaged in phased campus renewals had largely exhausted their private finance and were now bringing forward stages that required a substantially higher percentage of LSC grant.
 - Expectations and quality standards were rising, fuelling increases in both the scale of projects and their cost. There was an appetite for iconic buildings, increased social learning space, full IT enablement and whole campus renewal. The standards of environmental sustainability were also increasing, with a requirement to meet BREEAM² 'excellent' criteria introduced in March 2008.
 - Inflation in construction industry costs had been significantly greater than in other industries and had fed through into the sector's bids.
 - There was strong encouragement for the programme from Ministers and the LSC Chief Executive throughout 2006 and 2007. Mindful of the need to use or lose in-year budgets, the LSC promoted the programme intensively and supplemented client capability in the sector to support the more cautious cohort. Spurred on by the stated policy of renewing the entire estate, local LSC teams actively solicited projects from colleges and worked with college principals to turn more modest proposals into wholesale upgrading of the entire college estate.

² The Building Research Establishment Environment Assessment Method, a family of assessment method and tools designed to help construction professionals appreciate and mitigate the environmental impacts of the developments they design and build.

- The Machinery of Government (MoG) changes were causing concern. The budget split between FE and 16-19 capital after the establishment of DIUS and DCSF had increased nervousness that resources thought ring-fenced for colleges might be diverted to schools. Senior staff in the LSC were very concerned about the perceived loss of budgetary flexibility for FE colleges over the spending period. Also, colleges were used to working with the LSC and believed the capital system to be effective. They feared the impact that the establishment of the new YPLA and SFA in 2010 might have on their ability to participate and access funds, and so accelerated their involvement in the current capital programme.
- The economic downturn was having a triple effect. Colleges were finding it harder to realise their private contribution through borrowing and land sales; as the building industry contracted there was increased capacity to take college work more rapidly through development stages; and some foresaw growing pressure on public sector borrowing, making a tight fiscal settlement likely after 2010.

Section 3

A brief history of time

14. So the storm clouds were gathering. How did the system respond?
This is a brief chronology of events.
15. In December 2007, the LSC's Director of Property and Infrastructure commissioned an independent report, modelling and forecasting the pressures on the FE capital budget. The report (11 February 2008) stated that if the trend in rising project values and LSC grant contributions continued, the budget would be overspent by £100m in 2008-09 and the problem would increase: *"... if current policies did not change and the tempo of capital projects is maintained, the demand for capital grant payments moves in 2010-11 up to £450 million above the funds available for FE projects. This simply proves that the continuation of the current payment profile of projects is unaffordable to the Council."*
16. The report was initially presented to the right committees. But sadly it was not shared widely at a senior level in either the LSC or in DIUS. The responsibilities and relationships of all councils and committees with a role in capital, and referred to in what follows, are outlined at Annex 5.³ With the exceptions of the national Capital Committee and of Regional Councils, DIUS attends all of these groups as an observer.

Spring 2008

17. The LSC's Capital Policy Group was its main internal forum for property planning. The Group considered the modelling and forecasting report on 22 April 2008 and agreed that the solution was either to extend the period over which grant support was paid, or to prioritise projects at regional and national level. A Prioritisation Working Group was established and was supposed to put options to the June 2008 meeting of the national Capital Committee.
18. This Capital Policy Group referred the 11 February 2008 report to the executive Finance and Resources Board (FRB) on 29 May 2008. The Board noted that demand for capital project approval remained strong and that there was a risk this might lead to a shortfall in available funding across the Comprehensive Spending Review (CSR) period. It considered that the LSC would need to continue to monitor this affordability issue and consider the measures outlined in the paper to manage the in-year position if necessary. Work commissioned at this time focused on managing in the short term. The longer term issues did not seem to receive much attention. It is relevant to note that there was confusion at the time about

³ Copies of LSC National Council minutes are available at <http://www.lsc.gov.uk/aboutus/council-minutes/national-council/>

the Terms of Reference of the FRB: they state that it has responsibility for capital strategy and promoting financial control, whereas the formal status of the group is advisory.

Summer 2008

19. The LSC's Management Board had received a paper on capital issues at its meeting on 13 May 2008 warning of increasing pressure on the capital budget and alerting it to expect advice on short and medium term priorities at its meeting on 12 June 2008. No such advice was provided, however, and neither were capital issues discussed at that meeting. Moreover, no recommendations from the Prioritisation Working Group were put to the national Capital Committee until September 2008. These omissions exemplify a failure to confront issues in a timely way.
20. Meanwhile, the 30 July Council meeting approved the combined recommendations of the 19 June and 17 July Capital Committee meetings. These determined or recommended 26 FE and 16-19 capital funding applications with a total estimated cost of £1.2bn, including grant support of just over £1bn, payable over the next 5-6 years. The workload of the Capital Committee had become so onerous by June that the Director of Property and Infrastructure requested an extra meeting in August to deal with the large number of projects waiting to be presented.
21. In parallel, regions were required under *Building Colleges for the Future*, published in March 2008, to review their capital strategies by July 2008. These were not all returned until September 2008. The strategies aimed to identify objectives for investment, assess capital demand and the scale and quality of the existing FE estate in each region, and judge the LSC's capacity to meet that demand. In practice, however, the whole approach was project based rather than conceived as an overall programme of implementation. The draft strategies were largely 'shopping lists' of proposed projects. But in aggregate those shopping lists had almost doubled in value over the corresponding strategies presented in 2007, from £8.3bn to £16.1bn. The national LSC management considered that these wish-lists of very ambitious buildings would naturally be reduced in scale as projects came forward for approval.

22. Yet the scale of project proposals emerging from the pipeline contradicted that view. In the first three quarters of 2008-09 the total value of projects brought forward for approval in detail was 30% higher than the figure for the whole of 2007-08. The interval between AiP and AiD was contracting, from typically between twelve and eighteen months to sometimes three or four. I believe it is right to say that individual projects were scrutinised expertly and with due diligence but that it was the accumulation of pressure in the pipeline as a whole that escaped full recognition. It was not just an in-year problem; even had it been so, the scope for using Train to Gain underspends, a possibility that had been discussed, was reduced by the emergence of other DIUS cost pressures at mid-year. A decision to bring forward £110m of capital funding did seem to disguise the underlying problem in-year but merely amplified it for 2009-10. The Regions were playing an effective role in scrutinising the building plans, but there was no effective monitoring or control of costs – they had no delegated budgetary responsibility and it was assumed that it was being done centrally.

Autumn 2008

23. The Capital Committee met on 19 September 2008 and agreed to recommend to Council 7 AiPs and 1 AiD with a total value of £401m. It met again on 22 October 2008 and put forward a further 4 AiPs and 5 AiDs with a total value of £530m.
24. So when Council met on 5 November 2008 it was presented with Capital Committee project recommendations with costs approaching a further £1bn. Mindful of growing pressures on the capital budget, Council also received an initial report on the future funding and priorities of the capital programme alongside those recommendations from Capital Committee. Council approved the recommendations from September, only £44.5m of which was application in detail, but deferred decisions on October recommendations until its 17 December meeting. Members also requested a report on the funds available in 2008-09 and future years, and a paper forecasting AiP commitments on the budget across the current and next Comprehensive Spending Review periods.

25. Meanwhile, consideration of project proposals continued. As already noted, the Council had deferred decisions on the recommendations from the October meeting of the Capital Committee to satisfy itself about affordability. However, the November meeting of the Capital Committee agreed to recommend to the December meeting of Council further projects with a value of about £500m (fitting in an extra meeting on 4 December to get through them all).

Winter 2008

26. By December it was evident that a tsunami of bids had hit the programme, which was not sustainable on existing arrangements. A three-month pause in consents to proceed with AiP and AiD applications was agreed by the Council on 17 December 2008 to allow a thorough review of all projects in progress and in the pipeline and reveal the true level of demand.
27. There was no formal and timely communication of this decision to the sector as a whole. The LSC advised the colleges who were specifically affected and held meetings with the eight deferred at AiD. The Council discussed a full-sector communications plan but eventually it was decided not to carry it out at this stage. Ministers had been advised and they considered that the management information was inadequate, and that a full action plan needed to be brought forward about the scale of the problem and how to rectify it, before it should be communicated. The LSC had to bring together the necessary information and this took longer than anticipated.
28. But by 5 January 2009 the sector's representative bodies had been contacted by a significant number of colleges not involved in the December meeting but with expectations of moving forward with their plans. Regional Directors were then advised to contact college principals by telephone and visit. But the LSC Chief Executive's reply to the AoC's letter to DIUS, DCSF and the LSC was not shared with the sector until after a Ministerial announcement.
29. Colleges were upset because of the money committed and at risk (one medium-size college, for example, had spent £4m). Pressure on colleges from banks appearing more reluctant to lend, and claw-back from adult revenue budgets, increased concern. Principals were anxious about their personal responsibility for spending large sums of money and who would be held to account. There is a pressing need to quantify the levels of such financial exposure and formulate a considered recovery plan.

The legacy

30. Thus was the programme in crisis and confusion by the end of 2008. But the scale and gravity of the problems caused were not fully revealed until the LSC completed its case-by-case review of the project pipeline on 4 March 2009. It was evident that 253 projects were already underway or fully approved. Eight projects deferred from October were also given the go-ahead. A further 79 projects had already received the first stage of approval in principle, with a requirement of £2.7bn from the LSC⁴. An additional £3bn would be needed for the 65 colleges that had submitted proposals for approval in principle. Clearly, there were more applications than could be funded in this spending round and not all schemes could be implemented in the original timescales envisaged. The impact of the problems can be measured not only in the initial financial outlay on preparatory work by colleges, but in the disruption, disappointment and anxiety experienced by students and staff, and the waste of opportunities for more affordable improvements.⁵
31. We should perhaps recall the July 2008 NAO report *Renewing the physical infrastructure of further education colleges*. On value for money, it concluded that the joint funding approach, with the Learning and Skills Council providing additional grant funding to colleges, was enabling the sector to make good progress in rationalising its estate, providing facilities that were of high quality and meeting the needs of learners. The report, however, did state the need going forward for careful risk management and providing DIUS with clearer visibility to achieve a smooth transition to the LSC's successor bodies.
32. The capital programme has brought great benefits and this should not be overlooked, but it has come to present grave problems too.

⁴ A full list of the 79 projects with approval in principle is at Annex 6. We are aware of but have not listed those at feasibility stage.

⁵ Annex 8 outlines the implications of the pause in new projects for the construction industry.

Section 4

Themes and lessons

33. Now, in still troubled waters, it is important to identify and learn the lessons of last year's turbulence. In this section I make some suggestions, at a strategic rather than a detailed level, about what went wrong and why. The most significant problems were systemic. Mistakes were made by individuals but it is not from these that we will learn most and I have not seen it as part of my remit to focus on those who made them.

Policy and execution

34. Perhaps the first thing to say is that a good policy has been compromised by the manner of its implementation. The policy intent to transform the FE estate is clear and positive. It addresses many of the needs identified in *Realising the Potential*. Moreover, we have already alluded to its real contributions on the ground. The formerly underrated and neglected FE sector already has many reasons to be proud and confident. There are wonderful new facilities, learners in greater numbers are getting a much better experience and making stronger social and economic contributions, and staff morale has been transformed in many places. It is nevertheless clear that this good policy framework has not been executed flawlessly and that justice has not been done to it. The implementation approach did not include a robust financial strategy or a regional or national approach to prioritisation. It is very sad that impetus has been lost and confidence in the capital programme shaken. More widely, the sector's increasingly positive reputation has been damaged. We need to recover the position in a balanced and considered manner and there is a pressing need to confront hard choices and to leave behind a system led by the vagaries of demand.

Financial forecasting

35. The second issue is the contrast that can be seen between the generally good quality and reputation of capital planning and development, both centrally and at scheme level, and the diametrically poorer quality of overall financial and management information, forecasting, planning and management execution.
36. Individual projects received support from qualified chartered surveyors in the LSC's property team, who provided technical advice and advised regional committees on numbers and costs. The project assessment process was generally rigorous and diligent, with serious and sound analysis of the value of pursuing a scheme and an emphasis on coming in at reasonable cost.

37. On the other hand, I am not convinced that there has been a clear-sighted appreciation in the LSC of the overall financial picture, the 'pipeline' of ongoing and emerging development projects. The programme as a whole has been demand-led (I return to this) with an obvious risk of overcommitment in the absence of effective overall monitoring and management. And where has been the routine analysis, projection and reporting of aggregate, year-on-year cost? Where has been the sensitivity analysis to respond to the ways in which the world was changing? The lack of profiling of commitments and potential commitments has been a fatal flaw.

Strategic control

38. Overcommitment should have been detected and challenged sooner. The system of regional control developed too slowly in capital planning, and failed to take on the necessary responsibility for oversight and prioritisation. Overcommitment might also have been predicted. There is plenty of experience in the public sector of large scale improvement programmes experiencing slow early take-up and then quite suddenly reaching a tipping point at which understanding and attitudes are transformed and there is a surge of engagement. Was it not likely that the FE programme would follow a similar demand trajectory? If it had been anticipated strategically, the surge could have been mitigated and managed. This failure to institute a longer term financial strategy and forecast is at the root of the current crisis.
39. However, earlier action would in turn have required three elements which have been distinguished by their absence:
- The first is a fully integrated management approach at the LSC. The strengths of capital planning and the weaknesses in financial foresight have sat side by side without apparent grip from the overarching general management and corporate governance functions. There were straws in the wind, early storm warnings, but the problem was not crystallised fast enough. The flow of intelligence and decision making between the various groupings, committees, boards and Council itself was undermanaged. The accounting officer's objectives were set at a high level and did not specifically cover this programme, despite the fact that it involved massive funding and was viewed as transformational. Had things been handled better it is possible that the programme could have been paused or modified two or three

months earlier than it was, and in a more considered and orderly way. But there seemed to be a flawed understanding of how to escalate the recognition and management of an emerging problem. Eventually the Council deferred decisions on projects in November 2008 and paused the programme in December.

- The second is a robust LSC policy framework for making managerial choices. The demand-led approach has strengths: it has been greatly welcomed in the field that colleges and their local stakeholders have been free to play the major role in shaping their future directions and facilities. But this freedom should have been regulated within regional and national frameworks of priorities and associated criteria. When it became a matter of urgency to apply a systematic brake, the lack of such frameworks, and a failure to generate them quickly, introduced delay and uncertainty. Moreover, demand-driven development runs a general risk of not being the development most needed according to national, regional or educational priorities. The programme's apparent strength had started to emerge as its weakness.
- The third missing element was moderation of what might be called the 'champagne moment' culture. Despite early warning signals, colleges continued to celebrate successful applications in principle for their project as the point of no return. It seemed normal practice for projects not to be rejected at detail stage, provided that costs stayed in line with those outlined in principle. Colleges accrued professional fees, brought contractors on site to begin enabling works, and hired decant accommodation. Costs were incurred in the expectation that they would be recouped in the full grant forthcoming with in-detail approval. I was told that local LSC staff implicitly encouraged this approach, although I had no formal evidence of this. There needs to be a case by case examination of local expenditure to establish what was reasonable and judicious, and what was not. Clearly, however, there is room for this culture of anticipation to be modified and more explicit definitions of scheme status and legal obligations put in place. It is important that the legal obligations of both parties are established as part of that process.⁶ It is impossible to generalise. Some expenditure will be easily justified, but the AiP agreement did not give carte blanche to spend. Many Principals will have discussed their approach to building fees and works formally with their Board of Governors, and it will be important to study the decisions of the Boards.

⁶ The paragraphs of approval in principle letters at Annex 7 are explicit about the college's responsibility for expenditure beyond a certain quantum of matched LSC funding at the AiP stage.

40. Weaknesses in strategic control were compounded by short-comings in risk management. The LSC's 2007-08 Statement of Internal Control publicly disclosed that in 2006-07, and again in 2007-08, LSC Internal Audit had reported failure by the LSC to embed corporate risk management. Remarkably, overheating of the capital programme did not feature in the LSC's risk register until it had become a major problem. The link between regional risk and central financial control was underdeveloped in a system that delegates to the local level. The Audit Committee were unsighted and efforts to develop a more robust approach to risk registration were advancing slowly and were incomplete during the critical period.

Distractions and preoccupations

41. I have so often seen the impact of restructuring and policy change on organisational functioning that the part it played here was unsurprising. The DfES was divided in July 2007, a major MoG reorganisation with its attendant budgetary splits and personal uncertainties. In 2010 the LSC itself is destined to be replaced by two new agencies. Meanwhile there were adjustments to policy around specialisation and sustainability standards. The impact of the demise of the LSC and uncertainty about arrangements for the new agencies should not be underestimated. Many meetings took place about areas of contention and disagreement and the main focus of management was on these issues. In the vernacular, I believe people took their eyes off this ball, so preoccupied were they by these changes in the field of play.
42. Of course it is no good saying that organisational change should be reined in: it has always happened, as circumstances change, and it always will. It is very often essential and inevitable. The point is that the distracting and even blighting impact of change must be anticipated and positively managed at all levels. There is no shortage of wisdom about this in the manuals of management.

Communication

43. There are two different points here. The overarching one is that there has to be clarity about the roles of different kinds of formal organisation with legitimate interests in the same things. The mutual engagement of Government Departments and Non-departmental Public Bodies (NDPBs) is a good example: it should be governed by clear protocols which are understood in a shared way. I spelt out the need for this in my earlier report and suggested some management principles. Essentially, the responsibility of DIUS is to determine and monitor the implementation of broad policy, and to hold the LSC to account for delegated responsibilities. Effective implementation is the role of the LSC.
44. In the present case, many senior-level meetings took place between the two organisations. There were Post-19 Performance and Finance Group meetings between senior managers of the LSC and DIUS on 27 June, 23 September and 20 November 2008. Finance stock-take meetings between senior managers in DIUS and the LSC Chief Executive and Director of Resources took place on 12 August and 13 November 2008. Ministerial reviews with the LSC Chair and Chief Executive were held on 16 June, 21 October and 16 December 2008. Only at the meeting on 16 December was the capital programme discussed.
45. The fact that no one grasped the nettle suggests a lack of clarity about roles and responsibilities. Who has the authority to decide what and how; who needs to know what and when? I am left with a distinct feeling that bad news was itself bad news, too difficult to handle; yet this is exactly what management has to do. Senior department staff report that they were carefully monitoring the management information that was coming to Council, but that with the benefit of hindsight this information did not represent the full picture. The senior staff in the two organisations did not crystallise the issues fast enough and take decisive action.
46. The second more specific point is that when the impending storm was well and truly upon them there was a failure of communication with colleges. The Council wanted full communication but it did not happen. It was unable to provide Ministers with an authoritative statement of the position on the budget and project pipeline, backed by sufficient information to explain the situation clearly and convincingly, and this delayed full and open communication. The result, undeniably, was disappointment and anger in the colleges. This was at least susceptible to mitigation.

Section 5

What now?

Consultation on and development of a new approach

47. There is a crisis of shaken confidence (a matter of sentiment) and there is a crisis of uncertainty about the future of development schemes (a severely practical matter). The right kind of immediate engagement with colleges and others is the way to address both. Whilst this needs to be done quickly, no one should underestimate the amount of unravelling that is necessary or the time this is likely to take.
48. My main recommendation is that an open and truthful engagement and consultation process should be launched as soon as possible to find ways forward on the most important and pressing matters. The budget issue needs to be resolved, clarifying what is available, what has been committed and whether any other funds can be found. The mechanism set up now to deal with these pressing issues can move on later to consider less immediately urgent but at least equally important organisational matters for the future, and I return to this in the next section.
49. The main early business will be to agree how the present demand-led approach to capital management can be supplanted by a needs-based approach with explicit priorities and associated decision criteria. How should priorities and criteria be determined, and what should they be? How should these questions be answered now to deal with immediate uncertainties, and will that approach also be robust for the longer term?
50. I propose a panel of college principals at the centre of the consultation process, meeting with senior LSC officials and DIUS representatives. Their engagement with the LSC might be independently led if that would facilitate progress. Through this process some confidence might be restored about the handling of difficult issues. The panel should be consulted about priorities and potentially involved in an advisory capacity on how the prioritisation criteria are applied.
51. The process must be grounded in absolutely accurate information about the present position. This information has proved elusive in my brief enquiry. It will be necessary to know exactly what schemes are in the pipeline, with detail of their content, rationale, status, readiness and cost. And what are the levels of commitment and remaining discretion: what is beyond the point of no return and what is not?

52. The group should also be supplied with a preliminary mapping and analysis of the possible range of needs indicators, priority areas and decision criteria. These might include as needs indicators:
- Demographics including projections.
 - Evidence of the local needs of learners, employers and communities for educational opportunities and resources.
 - The level, pattern, coherence and quality of local educational supply, across providers.
 - The impact of potential development on medium term national policy imperatives including economic recovery, and specific local problems linked to recession.
 - Fit with wider local and regional strategic objectives and programmes, for example social inclusion and other social challenges.
 - The local history of additional funding, and fairness eg geographical relativities... and so on.
53. Priorities and decision criteria would reflect these and other factors and could be brought together by a modified option appraisal methodology which enabled need-related benefits to be weighted and both localities and proposed schemes appraised against them: a systematic way of evaluating benefit.
54. A core group of college principals and LSC officials should consult with stakeholders, including the AoC, the 157 Group, the Sixth Form Colleges' Forum, the Local Government Association (LGA), local authorities, Regional Development Agencies and selected others. But it must do so quickly.
55. The situation of sixth form colleges (SFCs) needs to be differentiated from the generality of the college sector, and clarity must be reached in a changing world. There must be confirmation of how SFCs' projects in the pipeline will continue to be processed and funded by the LSC and its successor bodies.
56. At the appropriate point, when the desirable way forward with development is clearer, discussions should be held with HM Treasury to locate skills development appropriately within the context of national economic recovery plans.

Organisational change: inter-organisational engagement and corporate governance

57. My second group of recommendations arises from a worrying observation. FE capital has been mismanaged in a complex organisational landscape; we are now moving into another complex landscape. How can we ensure that the problems that have been experienced are not repeated?
58. The new organisational context includes two new Departments of State, two brand new emerging agencies (YPLA and SFA) with primary allegiances to separate Departments, educational services that should be integrated potentially looking in different directions, and local authorities trying to make it work in the service of local people. Where is FE capital management going to sit in the middle of this? What will be handled locally, sub-regionally, regionally and nationally? How are budgets going to be structured so that they facilitate positive progress not territorial warfare?
59. One of the factors contributing to the present position, I argued, was the 'eye off ball syndrome' associated with organisational change. During the next couple of years, whilst change is underway, it will be crucial to stay absolutely focussed on the core, key issues, one of which is capital.
60. It is essential that work of high quality is done now to analyse the working relationships that will be needed in this new landscape. This will require organisational development input, and I believe the grouping set up to deal with the immediate problems should also be retained to offer advice here. A set of articulated protocols must be worked up, agreed and then communicated through systematic training effort so that they are understood and applied in a fully shared way.
61. I suggest a number of basic principles to begin with:
 - The FE sector must develop a clear capital investment strategy to guide what it does, derived from explicit statements of purpose and vision.
 - It should then review its methods of procurement in order to maximise the effectiveness with which it pursues this strategy.

- There should be a systematic, external piece of work to compare and contrast the FE capital programme experience with that of other public sector programmes. We must learn from experience, and not only our own. There are many dimensions that can be explored, for example, about the value of standard documentation in the presentation of proposals; are centrally shaped framework contracts an advantage; what is best practice in separating procurement processes from monitoring processes?
 - The active engagement of key partner organisations is make-or-break: the LGA, Regional Planning Groups, local authorities and Regional Development Agencies for example.
 - With several organisations in play, it will be vital to be clear about the regulatory function: who will hold the ring and what will be the rules and methods of their engagement? Experience suggests that, once established, arrangements should be left in place for a substantial period so as to achieve clarity, stability and confidence. This will certainly impact on the willingness of banks to supply extra funding – a significant consideration, since affordability rules for the future are likely to depend more heavily upon private borrowing.
 - If things work well, preserve them. The capital planning function has done sound work under present arrangements. Breaking it up might be conceptually satisfying but practically very unhelpful. This system needs to retain some of its strengths.
 - There will be a need to explore new forms of funding that are innovative but sound; is this possible?
- 62.** The tale of the last six months is redolent of problems within individual organisations as well as between them. I merely say that those responsible for the design and introduction of the YPLA and the SFA should make sure that internal arrangements are fit for purpose, including compliance with good standards of corporate governance and the capability and capacity to meet or surpass expectations for inter-organisational work. This will require balanced and mature leadership skills.
- 63.** This has been a difficult period for the FE sector and it is not over yet. The gleam of light however is the commitment of those involved in all the organisations I have met with. I am clear that no one has wanted to get into this position or acted out of indifference, and that everyone will do their all to put things right. The cause, to improve educational opportunity and strengthen the skill base so needed in our economy, is a noble one.

Annex 1

College case study: City College Coventry

City College Coventry and Coventry City Council determined to place the formation of a new college at the heart of the biggest urban regeneration project in the city centre since the end of World War II – the Swanswell Initiative.

City College is a general FE college with over 11,000 student enrolments and an annual turnover of £23 million. Specialising in vocational courses essential to local industry, the college was formed from the merger in 2002 of Tile Hill College and Coventry Technical College. The rationalisation that resulted led to the new college having 40% excess accommodation with much of it (built in 1934) not fit for purpose.

The LSC provided substantial support for the college in a phased new build, the first phase opening in September 2007 and the second in January 2009. The total cost of the project was £53.3 million with £22.0 million grant from the LSC. Indications are that the project has been brought in on budget.



As a national specialist in Passenger Service Vehicle repair and maintenance the college needed first class facilities to cater for clients including Arriva, First Group and National Express. These include a service pit capable of taking bendy buses and paint spray booth. The IT infrastructure is also excellent with a storage capability of 30,000 Gigabytes, one of the largest capacities of any education institution in the country.

The new college is situated in the most deprived ward of the city, where levels of poor adult literacy and numeracy are broadly twice the average for the city as a whole, and ethnic diversity is at its highest. Although it is still early days, the project has already contributed to significant improvements in student attendance, more students staying the course and a higher proportion achieving their qualifications.

Overall success rates on long courses rose from 63% in 2005/06 before the move to 75% in 2007/08. Success rates for work-based learning are now at 80%. Student applications have also risen noticeably.

Programmes have been developed and are being run specifically to benefit the local community. The area's Community Liaison Group speaks highly of the positive relations with the new City College and the impact that it is having.

Annex 2

Recommendations

My recommendations aim to establish a platform for recovering confidence in essentially good policies speedily, and in a way that is fair and transparent:

1. The priority business is to agree how the present demand-led approach can be replaced by a needs-based approach with explicit priorities and choice criteria. These should inform the necessary decisions about the future capital programme.
2. To this end there must be an early and open process of engagement and consultation between DIUS, the LSC and the college sector. A panel of college principals should be identified to work with LSC officials and DIUS representatives. This grouping should confer with the Association of Colleges, the Sixth Form Colleges' Forum, the 157 Group, the Local Government Association, local authorities and Regional Development Agencies.
3. The process must be grounded in fully accurate and detailed information about capital schemes in the pipeline. There should also be a preliminary mapping of potential needs indicators to assist the discussion process.
4. A realistic assessment is required, founded on excellent information, of individual colleges that have incurred expenditure, with high expectations, but have no guarantee of final approval for their proposals. A balanced approach is urgently required to expedite clarification of their position. It should include a process of structured self-assessment against agreed criteria. Experience in other public sector settings suggests this would benefit the colleges themselves and help to move things forward quickly.
5. In order to achieve speedy implementation, it will be essential to have a blended approach of open consultation with the sector, matched by a small dedicated project management group which drives a highly organised programme across LSC and DIUS levels. It must restore confidence with its professional approach and urgency of action. There is a need for balanced reflection and consultation for the first task and excellent project management skills for the second.
6. Talks should be held with HM Treasury to reinforce the importance of skills development in the context of national economic recovery and to review resourcing for the continuing capital programme. It is essential that a robust recovery plan is demonstrated.

7. Future development must take place in the context of a comprehensive and competent financial strategy that supports needs-related planning.
8. Active consideration must now be given to the future working arrangements of the Skills Funding Agency and the Young People's Learning Agency. Key issues for resolution include: the formulation of a robust investment strategy, the development of best-practice procurement methods in the light of experience in other public sector programmes and approaches to the engagement of partner organisations. The nature and management of their relationship with DIUS and DCSF must be clarified and it will be essential to design a regulatory function that inspires confidence within and beyond the FE sector itself.

Annex 3

Meetings relating to the review of the FE capital programme

Sector bodies and colleges

- Chief Executive of the AoC, Martin Doel, and Assistant Chief Executive, Julian Gravatt
- David Igoe, Chair of the Sixth Form Colleges' Forum
- Chief Executive and Chair of the 157 Group, Lynne Sedgmore and Graham Moore (Principal of Stoke on Trent College)
- College Principals
 - Len Closs, Northampton College
 - Paul Wakeling, Havering Sixth Form College
 - Mark Dawe, Oaklands College
 - Andy Wilson, Westminster Kingsway College

Learning and Skills Council

- Chris Banks, Chair
- Mark Haysom, Chief Executive
- David Russell, Director of Resources
- Philip Head, Director of Infrastructure and Property Services
- Norman Boyland, Chair of the LSC National Capital Committee
- Tom Crompton, Director for East Midlands Region
- John Taylor, former National Council member, Capital Committee member and Principal of Sheffield College
- David Hughes, Regional Director for London and Chair of the LSC Finance and Resources Board
- Gareth Cadwallader, LSC Council member and Chair of LSC National Audit Committee
- Neville Thirtle, member of LSC Audit Committee

Government

- John Denham, Secretary of State for Innovation, Universities and Skills
- Sion Simon, Parliamentary Undersecretary of State, DIUS
- Stephen Marston, Director General of FE and Skills, DIUS
- Susan Pember, Director of FE and Skills Performance, DIUS
- Sue Baldwin, Director of Young People's Participation and Attainment, DCSF
- Michael Whitehouse, Assistant Auditor General, with Angela Hands, Director, National Audit Office

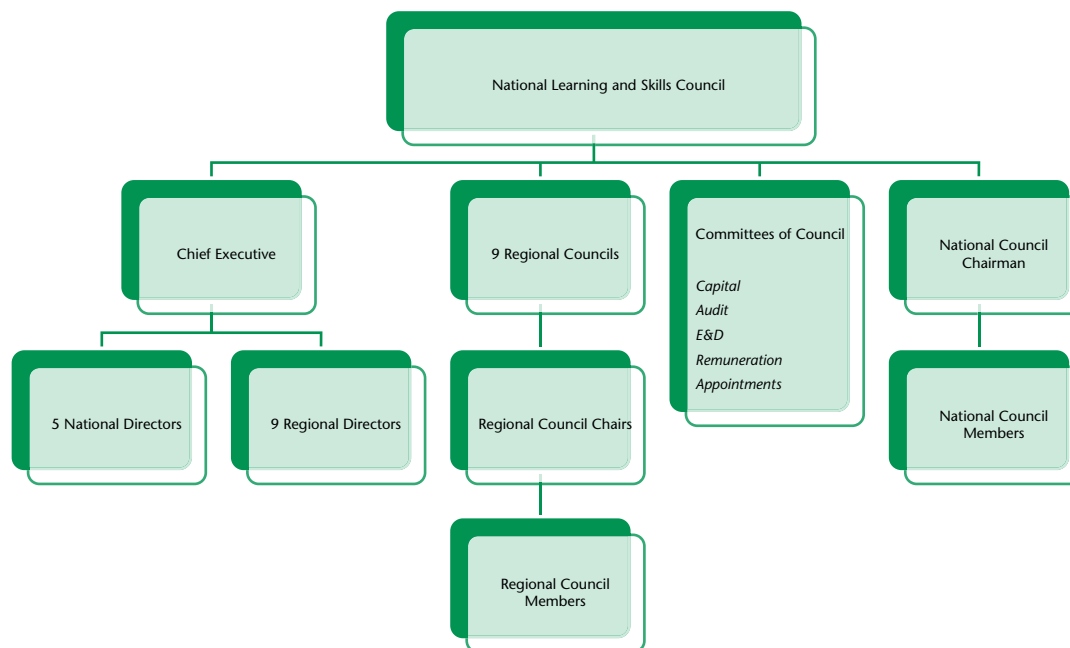
Stakeholders

- Banking – Richard Watt, Director and Head of Education, Community and Government, Lloyds TSB Corporate Markets, with Keith Norman
- Construction – Stuart Bean, Manager of the CBI Construction Unit with Steve Hindley, Chairman of Midas Group and Richard Gregory, Chief Executive of BAM Construct UK
- Local Government Association – John Freeman, Director of the Raising Expectations Action Programme
- Partnerships UK – James Stewart, Chief Executive, with Peter Impey
- Partnerships for Schools – Tim Byles, Chief Executive
- Professional services – John Bryan, Director, Bond Bryan Architects
- RDA – Pam Alexander, Chief Executive of SE of England Development Agency
- Steven Broomhead, Chief Executive of NW Development Agency

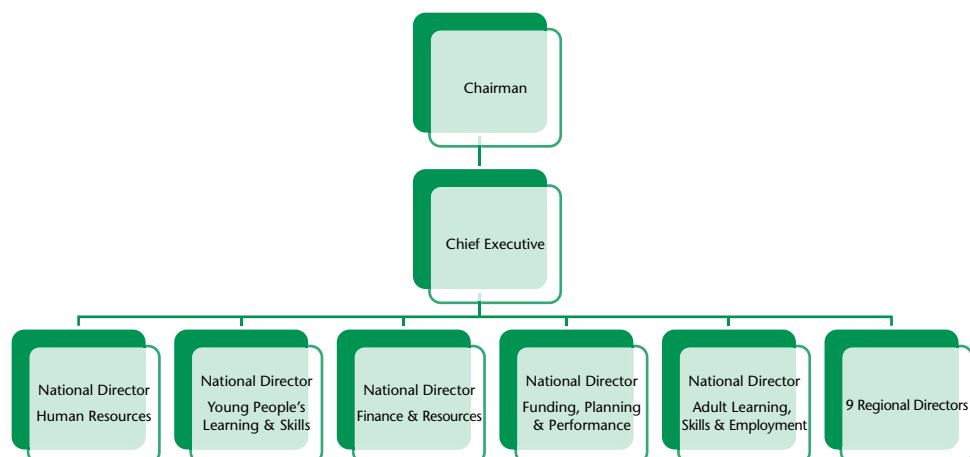
Annex 4

LSC organisation, staffing and budgets

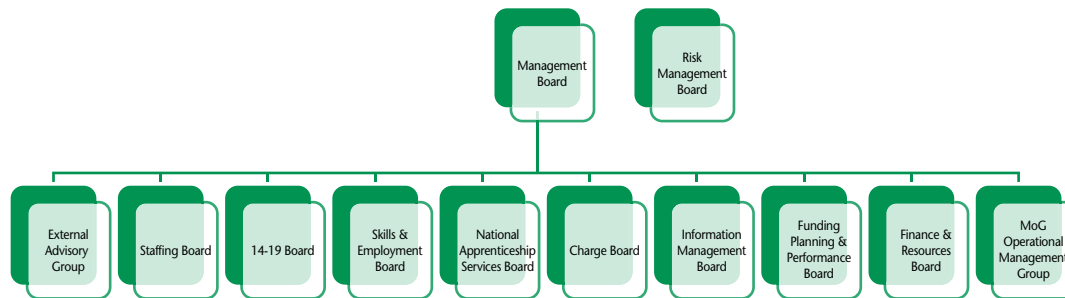
LSC – Corporate Governance Framework



LSC – Top Management Structure



LSC – Management Board and its Sub-Groups



About the LSC

What is the LSC and what does it do?

The Learning and Skills Council (LSC), a non-departmental public body (NDPB) under the sponsorship of the Department for Innovation, Universities and Skills (DIUS), was formed in 2001 and will plan and fund further education into 2010, when it will be dissolved as part of the Machinery of Government changes.

The LSC has responsibility for building a dynamic and successful further education (FE) system for England. Its aim is to give young people, adults and employers the high-quality learning and skills they need for economic and social success.

The average number of staff employed during 2007-08 was 3232, managing £11.4 billion of public funds.

LSC Priorities and Investment Programme

The Government's 14-19 agenda, the Skills Strategy and the FE White Paper *Further Education: Raising Skills, Improving Life Chances* have given the LSC the framework for what it does. Every year the LSC publishes its *Statement of Priorities*. This reflects the priorities set out in the annual Grant Letter, which is issued jointly by DIUS and the Department for Children, Schools and Families (DCSF), and outlines how it aims to achieve them.

How the LSC works

The LSC's national teams work with DIUS, other Government departments and a range of partners and stakeholders, including Sector Skills Councils, to make sure the LSC develops policies that support the delivery of its strategies and meet the local and regional needs of young people, adults and employers.

The national team works with nine regional offices to support the implementation of these policies. The nine regional directors work with organisations such as the Regional Development Agencies, local authorities and Government Offices to provide a framework for the work of the LSC's local partnership and area teams. These teams provide the interface with colleges and training providers, as well as with employers and other local stakeholders.

The regional teams plan and prioritise the education and skills provision for the region, including how the LSC provides education, learning and training to encourage more people to learn and improve their skills. Its local partnership teams (which cover roughly the same geographical areas as the 150 local authorities in England) remain focused on making decisions locally – working with local stakeholders to identify and meet the learning and skill needs of each area.

Each national and regional director is personally responsible for internal control, risk management and governance within their area.

Until February 2008, 47 local LSC councils exercised functions within their local areas. But they were abolished by the Further Education and Training Act 2007, and replaced in September 2008 by nine statutory regional councils, which also succeeded the nine interim regional boards. One of the functions of these regional councils was to endorse capital proposals, although they had no delegated capital budgets or overall financial management responsibilities, which remained at national level.

Machinery of Government (MoG) changes

These changes coincided with the separation in 2007 of the Department for Education and Skills into two departments. The aim of the Machinery of Government change is to make local authorities responsible for the funding and outcomes of all young people up to age 19, and for getting young people to stay on in education and training; and to create a new system for post-19 learning which supports a demand-led, streamlined funding process to colleges and training providers based on meeting the needs of employers

and learners. The Council's responsibilities for adult education will be taken over by the new Skills Funding Agency (SFA), and its responsibilities for young people's education and training will be given to the 150 local authorities, supported by a new national NDPB, the Young People's Learning Agency (YPLA). The Department anticipates that the SFA will take over the funding and management of the further education capital programme, making its decisions together with the DCSF.

Further Education Colleges

Colleges were part of local authorities until the Higher and Further Education Act 1992 (effective April 1993) which made them independent corporate bodies that operate on a not-for-profit basis. There were 366 FE colleges in England in 2007-08 (marginally fewer now because of mergers in 2008-09). They educate and train over 3 million young and adult learners each year, and some £5.7 billion (80%) of their total income of £7.1 billion in 2007-08 came from the LSC. Colleges work with a range of organisations, including schools, higher education institutions, employers and local authorities.

The LSC is responsible for monitoring colleges' compliance with terms and conditions that it attaches to its funding to colleges. It must be satisfied that colleges have appropriate arrangements for governance, financial management, and securing value for money and that public funds are used in accordance with the purpose intended. Colleges require the consent of the Council for capital transactions exceeding the lower of £1.5 million or a sum equivalent to 5% of their annual revenue, and for any capital-associated borrowing. Most colleges own some or all of their land and buildings and they can obtain loans, offering their premises as security where this is required. They must manage their premises with regard to the Council's guidance. Colleges' governing bodies are responsible for ensuring that funds are used in accordance with the statutory powers, the financial memorandum between the Council and the college and any other conditions imposed by Council.

Annex 5

Capital: LSC Councils and committees in 2008

RESPONSIBILITIES OF COUNCILS AND COMMITTEES

LSC Non-executive: Capital project determination

9 Regional Learning and Skills Councils: established September 2008. These Councils replaced Regional Boards, which had previously discharged similar responsibilities. Functions of the Councils in relation to capital include agreeing regional capital priorities and regional capital strategies, and endorsing capital proposals for approval by the Chief Executive, National Capital Committee and National Council. The Councils also exercise delegated authority for smaller projects.

National Capital Committee: advises the Council and takes decisions under delegated authority in relation to the capital programme, and monitors and oversees policy implementation and development. The Committee determines capital projects up to £30m (final sign-off by LSC CEO), makes recommendations to Council on projects exceeding £30m, and determines or provides advice to the Council on delegations. The Committee is also responsible for considering and providing advice to the Council on proposals for capital policies, project criteria and administrative arrangements.

National Council: created by the Learning and Skills Act 2000 to modernise and simplify the planning, funding and delivery of education and training for people over the age of 16 in England, other than those in universities. National strategy is decided by the National Council, made up of non-executive members representing a wide range of sectors. The Council is responsible for delegation of authority to determine capital projects, and determines all capital projects exceeding £30m, on recommendation of National Capital Committee.

Executive: Capital Planning, Finance and Management

Capital Policy Group: LSC working group on capital policy and planning, chaired by the Director of Resources. The functions of the Group were subsumed into those of the Finance and Resources Board in May 2008.

Finance and Resources Board: established in April 2008, the Board provides strategic and detailed scrutiny of matters that have financial, legal, policy or resource implications. Its remit is to carry out tasks on behalf of the LSC Management Board and to report back with appropriate recommendations. This includes examining policy proposals that have financial and resource implications, oversight of financial policy and management, and oversight of capital strategy. The Board is chaired by the Regional Director for London.

Management Group/Board: The Management Group of executives has day-to-day responsibility for the running of the national LSC organisation. It is chaired by the LSC Chief Executive.

Annex 6

Capital projects with approval in principle from the LSC

College

| | |
|---|--|
| Abingdon & Witney College | Huddersfield Technical College/ Kirklees |
| Alton College | John Leggott College |
| Barnsley College | King George V College |
| Barrow Sixth Form College | Lewisham College |
| Bournemouth and Poole College | Leyton College |
| Bourneville College | Loughborough College |
| Brighton and Hove Sixth Form College | Manchester College of Art and Technology (2 projects) |
| Brooklands College | Merton College |
| Calderdale College | Mid Cheshire College |
| Canterbury College | National Construction College |
| Cardinal Newman 6th Form College | National Skills Academy for Nuclear |
| Carlisle College | National Star College |
| Carmel College | New College Stamford |
| Colchester Institute | North Devon College |
| College of North West London | North Herts College |
| Darlington College | North Warwickshire & Hinckley College |
| Dunstable College | North West Kent College |
| East Riding College | Northbrook College |
| Easton College | Norton Radstock College |
| Franklin College | Oaklands College |
| Gateshead College | Queen Mary's College, Basingstoke |
| Great Yarmouth College | Reaseheath College |
| Grimsby College | Regent College |
| Harrow College | Rotherham College of Art and Technology |
| Hartlepool College of Further Education | Shrewsbury College of Arts and Technology |
| Havering Sixth Form College | |
| Hertfordshire Regional College | |
| Hopwood Hall College | |

Shrewsbury Sixth Form College
South Devon College
South Thames College
South Tyneside College
St Helens College
Stafford College
Stockport College
Stockton Sixth Form College
Stoke-on-Trent College
Stourbridge College
Strode College
Taunton's College
The Oldham College
The Sixth Form College, Colchester
Uxbridge College
Wakefield College
Waltham Forest Borough Council –
Skills Academy for Construction
West Cheshire College
West Nottinghamshire College
West Suffolk College
Westminster Adult Education Service
Westminster Kingsway College
Wiltshire College
Working Men's College
Worthing College

Annex 7

Application in principle: extracts from LSC letters

Following determination of an application in principle, the LSC wrote to the college setting out the conditions relating to the project, and the contribution that the LSC would make towards costs incurred in developing a detailed application. Relevant extracts of specimen letters in use for projects considered by the Capital Committee (a) pre September 2008 and (b) since September 2008 are reproduced below. The LSC's *Capital Handbook*, November 2006 sets out in full the application process.

(a) Specimen letter for projects considered by the Capital Committee before September 2008

I am pleased to confirm the outcome of the Council's consideration of the in principle application to [insert project details]

1. At its meeting on [•] the Council considered on an in principle basis the college's capital project proposals as described in the application dated [•] and the information received on the [•]. This followed the meeting of the Council's Capital Committee on [•] at which the Capital Committee endorsed the in principle application for approval by the Council.
2. In summary [•] College has applied to the Council for 'in principle' approval to the following:
[insert project details]
3. I confirm that in order to assist in marketing to, and negotiating with, potential developers and partners, without prejudice to the determination of a detailed application in due course, that the Council has agreed that the project proposal would meet the Council's projects criteria. The Council has also agreed that budgetary provision equivalent to approximately [•] % of the estimated total project cost [insert estimated project cost] should also be made for the project proposal for a period of up to twelve months pending receipt of a detailed application.

[Add any further comments or conditions]

The college has already been awarded £250,000 on a matched funding basis for feasibility study support and now that approval in principle has been confirmed, the college will be eligible to apply for Stage 3 project fee support. This fee support will be offered at the in-principle grant intervention rate as indicated in paragraph [•] above [•%] of a further £1,000,000 fee expenditure to take the project to at least RIBA Stage [insert] in readiness for the full detailed application.

This letter is intended for the use of the applicant only. Whilst it may be that the college may show this letter to third parties as it sees fit the Council accepts no obligation or liabilities to such third parties.

(b) Specimen letter for projects considered by the Capital Committee from September 2008

I am pleased to confirm the outcome of the Council's consideration of the college's in principle application to **[insert description]** by constructing new buildings totalling [m²] and refurbishing [m²] of existing accommodation at.....

1. At its meeting on the **[date]** the Council was asked to consider on an in principle basis the college's capital project proposals as described in its application dated **[date]**. This followed your presentation to the Council's Regional Capital Group on **[date]** after which the Capital Committee of **[date]** endorsed the college's in principle application for approval **[by the Council]**.
2. In summary the college had applied to the Council for 'in principle' approval to the following:
[Insert details]
3. I confirm that in order to assist in marketing to, and negotiating with, potential developers and partners, without prejudice to the determination of a detailed application in due course, that the Council has agreed that the project proposal would meet the Council's projects criteria.
4. The college may wish to note, however, several points relating to this endorsement:
 - a. the Council's Regional Property Adviser understands that the college and its project team have carried out a full "gateway review" of the project proposal and are able to confirm that the design is appropriate and can be constructed at the cost levels stated in the application; ...

- c. the Council will now treat the current day estimated project cost as the maximum project sum to which the college should work and the only allowable additions are agreed building cost inflation and an additional sum to bring the project up to BREEAM excellent standard as published in the Council's cost models. Any material variations to the scope of the project and the maximum project sum net of the allowable additions may require the college to re-submit its in principle application;
 - d. whilst noting the proposed grant support rate of [%] of the current day estimated project cost, the Council will wish to review with the college the proposed start date and grant payment programme ahead of the college submitting the detailed application. I confirm that the college is now eligible to apply for stage 3 fee support as outlined in the Council's Capital Handbook; ...
 - f. the college is expected to bring forward its detailed project proposals for approval within 12 months of the date of this letter.
6. This letter is intended for the use of the college only. Whilst it may be that the college may show this letter to third parties as it sees fit the Council accepts no obligation or liabilities to such third parties.
7. The college has **[already been awarded feasibility fee support and Project fee support on a matched funding basis]** and now that approval in principle has been confirmed, the college will be eligible to apply for Stage 3 project fee support. This fee support will be offered at the in-principle grant intervention rate as indicated in paragraph 3 above [(%) of a further £1,000,000 fee expenditure to take the project to at least RIBA Stage [insert] in readiness for the full detailed application.

Annex 8

The impact on construction firms

The construction industry and associated professional services have received a sustained boost from the FE capital programme. Key people from the industry have lauded the programme for its rapid development and quality of delivery. Many hundreds of millions of pounds of FE capital contracts continue to provide substantial business for the industry in terms of order books and jobs. Many of those projects are woven into the regeneration plans and economic fabric of local communities.

Nevertheless, the pause in the programme has had consequences for those firms with a growing stake in the public sector market. I have been quoted examples of involvement in the public sector market rising from 50% in 2008 towards 90% by the end of the decade. As the procurement practices in the FE sector have been refined, and framework agreements established for professional services, the benefits of value for money in project management and design have been accompanied by a concentration of work with certain firms.

Further, the applications and procurement process has been structured to provide 95 per cent cost certainty at the point when detailed applications are signed off. So construction firms are ready to go on site in a number of projects that had been expecting to gain AiD in the first months of 2009.

The CBI has urged the importance of securing future construction orders and jobs so far as that is possible during the inevitable further delays while projects are reviewed and prioritised. The release of the 8 schemes on 4 March will have brought some relief to those construction firms involved, but the industry is geared up to move quickly upon a range of other fully designed projects. In the current economic situation it is not clear how that capacity will be utilised otherwise in the short term.

List of abbreviations

| | |
|-----------------|---|
| AiD: | Application in detail |
| AiP: | Application in principle |
| AoC: | Association of Colleges |
| BREEAM: | Building Research Establishment Environment Assessment Method |
| CEO: | Chief Executive Officer |
| CSR: | Comprehensive Spending Review |
| DCSF: | Department for Children, Schools and Families |
| DfES: | Department for Education and Skills |
| DIUS: | Department for Innovation, Universities and Skills |
| E&D: | Equality and diversity |
| FE: | Further education |
| FRB: | Finance and Resources Board |
| IT: | Information technology |
| LGA: | Local Government Association |
| LSC: | Learning and Skills Council |
| MoG: | Machinery of Government |
| NAO: | National Audit Office |
| NDPB: | Non-Departmental Public Body |
| RDA: | Regional Development Agency |
| SFA: | Skills Funding Agency |
| SFC: | Sixth Form College |
| SFCF: | Sixth Form Colleges' Forum |
| YPLA: | Young People's Learning Agency |

This is the report of an independent review of the capital programme in further education, commissioned jointly by the Secretary of State for Innovation, Universities and Skills and the Chair of the Learning and Skills Council.

The report can be viewed at www.dius.gov.uk or at www.lsc.gov.uk

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