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Llywodraeth Cymru
Welsh Government

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Dear Peredur,

Thank you for your letter of 26 November following my attendance at Committee to give evidence on the Tertiary Education and Research (Wales) Bill ('the Bill'). Your letter raised a number of questions and I'm pleased to set out answers and further information.

Q. Costs attributed to the new Commission - the Regulatory Impact Assessment notes that the Commission will manage a budget of around £500 million per annum. Can you provide details of what other financial risks the Welsh Government associates with the Bill, by area of cost, along with a breakdown on how each area of cost was calculated?

As implementation of the Commission gathers pace, decisions will be taken that impact on the assumptions made to estimate the overall costs of the Commission both in terms of setting up the Commission and ongoing costs. The three largest financial risks areas associated with the Bill are staffing, IT and location. These areas are subject to potential significant volatility as decisions are made. The costs are broken down as follows

	Transitional costs	Ongoing
	Total £m	
Staff Costs	0.5	13.0
IT Costs - capital	4.9	5.2
Location costs - capital	1.8	0.3

Key risks that could impact these costs are:

- <u>COVID,</u> which has upended assumptions in relation to the kind of office space organisations need. The decisions around location will need to take as much of the impact of COVID and wider societal changes into account or risk burdening

the Commission with expensive and/or unsuitable office space. COVID is also driving an increased demand for both IT hardware and specialist skills increasing staffing and IT costs.

- Location, which must take into account the current location of HEFCW and Welsh Government workforce. A relocation from south east Wales (while perhaps saving money initially) could potentially impact the number of staff who transfer into the organisation, increasing staff recruitment and training costs significantly.

- IT strategy Key decisions have not yet been taken so it is likely that some initial cost assumptions may change as choices over systems and processes are finalised.

Further breakdown for ongoing staff and IT costs is covered in the following questions. In addition more details around how estimates were calculated are set out in detail in the original Regulatory Impact Assessment (RIA).

As outlined at Committee, when the RIA is revised, in line with standard procedure, after Stage 2, I will ensure that all cost estimates are reviewed against the latest implementation decisions so as to give the most up-to date estimates of cost.

There are two other broad areas of financial risk associated with the Bill that I wanted to mention, as at the present time it has not been able to quantify them. These are the costs of the new powers the Bill confers on the Commission and, if there will be additional costs to bodies in the Tertiary Education Sector as a result of the Bill or the actions of the Commission. In both cases the financial risk is that the Bill would place additional or excessive additional costs on either the Commission or providers in the sector. While it is not possible yet to quantify these risks as they will depend upon decisions taken by the Commission once it is established, we continue to monitor and engage closely with stakeholders to ensure any additional costs incurred due to the bill are absolutely necessary and kept to a minimum.

All the areas of financial risk noted above will be impacted by the decisions taken during the transition phase and I want to reiterate, as I said at Committee, that these costs will be closely managed. In terms of that ensuring that risks are both identified and managed effectively, a post compulsory education and training (PCET) programme team has been established within the Welsh Government. The programme team will manage the delivery of the Bill and oversee the necessary legislative, operational, HR etc. related activity necessary to establish the Commission. The programme team will also be the front line for managing broader risks. In addition there are a number of other controls in place to manage the risks of the project:

- Internally and in line with the requirements of Managing Welsh Public Money the programme to establish the new Commission will be reviewed monthly as part of the normal management accounting and financial management arrangements within Welsh Government. Progress against plan is then considered within the Skills, Higher Education and Lifelong Learning directorate and reviewed periodically by the Economy, Skills and Natural Resources' Audit and Risk Assurance Committee (ARAC) and if necessary at a higher level by the Welsh Government ARAC. This process may be the focus of subsequent review by Audit Wales and the Public Accounts Committee.

- As mentioned at Committee I have also established a Strategy and Implementation Board, which I chair and whose membership is drawn from key stakeholders from across the tertiary education sector. This Board will work

collectively, providing expert advice to inform and support the delivery of the reforms, transition and implementation of the Bill and the establishment of Commission.

Q. Staff costs are the biggest expense for the new Commission, totalling just under £13 million per annum from 2023-24. During evidence, you stated that "only £3.3 million of those costs are new; the £9.7 million balance relates to existing HEFCW and Welsh Government staffing". You agreed to provide a breakdown of the £13 million for both the Welsh Government and the Commission staff.

The high level target operating model assumes a staff maximum of 169 for the Commission, including 53 from HEFCW. The staff costs incorporate all current HEFCW staff and a count of WG staff currently working on the functions included in the Bill. It is important to note that no decisions have been made regarding staffing and roles, so these assumptions were taken to estimate costs. The figure of 169 represents the maximum staff needed to run the Commission based on current assumptions. The breakdown of the £13m staff costs is:

		Staff	Cost (£M)	No. of staff
CTER	Existing	HEFCW staff:	£3.2	53
	Existing	Welsh Government transferred in:	£6.5	110
	New	Additional staff for IT, HR and Finance:	£0.4	6
WG	New	New WG Sponsorship Team staff:	£2.9	45
		Total	**£13.0**	**214**

Q. On-going IT costs for the new Commission are in excess of £5 million per annum anticipated from 2023-34. You provided a breakdown of the estimated IT costs in four main categories: software development (£0.15 million); annual security and recertification (£0.03 million); user costs (£4.28 million); and consultancy costs (£0.69 million) (total £5.15 million). You indicated that some of the costs included in the breakdown would be incurred regardless of the reform, due to upgrading existing systems. Can you provide a breakdown of what the 'business as usual' costs would be and the additional costs of the reform; and what risks may impact these costs?

The breakdown of the ongoing 'business as usual' costs and their comparison with the 'ongoing costs' for the Commission are set out below. The establishment of the Commission offers an opportunity to ensure that the IT system in place is high performing, secure and reliable. Simply maintaining existing legacy systems incurs 'hidden opportunity costs' in terms of maintaining inefficient processes. In addition, in time, the systems will not be able to cope with the ambition of the reform and the demands that need to be placed upon them. At this stage costs have been included for upgrading and maintaining existing systems only as opposed to replacement, as it is unclear at this stage exactly when this would have to happen.

	Ongoing IT costs for CTER (£M)	Business as usual costs (£M)	Difference (£M)
IT Running Cost - development software	£0.15	-	£0.15
IT Running cost - annual security recertification	£0.03	-	£0.03

IT Running Costs - user costs	£4.28	£3.13	£1.15
IT Running costs - IT Consultants	£0.69	-	£0.69
Cost of upgrading/maintaining legacy systems	-	£0.25	-£0.25
Total	**£5.15**	**£3.38**	**£1.77**

These forecast costs are driven by assumptions based on the best estimates of need and cost for the new Commission. As noted above decisions are taken through the implementation phase, and indeed beyond, it is likely that some initial assumptions will prove to be wide of the mark. Given that IT running costs for users makes up by far the biggest amount of ongoing costs it is here that the biggest risks of a mismatch occurs. We have mitigated that risk by:

- Being prudent in our cost estimates, for example including using Welsh Government costs for hardware/software at the high end of the scale of cost.

- Testing the assumptions with members of Welsh Government digital profession.

- Including the maximum number of staff in our assumptions.

Q. Data collection - the Bill confers a series of new powers on the Commission, including introducing an improved, compliant and effective data collection, analysis and dissemination system with the aim of ensuring timely, accessible and relevant information about tertiary education in Wales is available for all who need it. You agreed to provide examples of what this data collection might entail.

There are a number of data sources in the tertiary education sector. At this stage no decisions have been made on what data the Commission will collect, and therefore no decision has been taken on additional data, if any is to be collected. However by using an example of data that is already collected by the Welsh Government we can demonstrate what data collection might entail and what improvements we hope to make. The data collection and utilisation systems will play a vital role supporting the Commission in achieving the aims of the reform. The systems will contribute to the evidence base underpinning the important decisions that the Commission will take every day.

A large set of data that the Commission may either need to collect, or have access to, is data currently collected via the Lifelong Learning Wales Record (LLWR). Operational data is collected on a monthly basis from approximately 48 providers, comprised of Further Education Colleges, Work-Based Learning providers (including apprenticeships and traineeships), and Adult Community Learning providers. The LLWR is used widely throughout Welsh Government for funding calculations and to allocate funding to the providers, analysis, and for reporting and information purposes.

LLWR is not a single system or piece of software. It is better described as a collection of ways of doing things along with the use of standard cross-functional software. It is widely recognised among those using LLWR that there are currently many challenges resulting from LLWR being a legacy environment which has not been modernised for many years. For example data is transferred from each provider to the Welsh Government in XML format via a web portal, and then undergoes extensive validation before being loaded into a Welsh Government database if valid. Any records which fail validation are not loaded, and are reported back to the provider through the website for re-submission. Currently there is a high level of validation failures for incoming data (caused by a large amount of duplicated

data). It is clear that in the case of LLWR data it could not be a case of 'lift and shift' without also importing these challenges and deficiencies.

The new data collection system might entail having web APIs (Application Programme Interfaces) as a solution to collect data. An important principle for designing the data collection system will be to reduce unnecessary burden on the data providers and a web API based system would deliver this by enabling data providers to simply log on to and submit data, with automated validation built in before accepting the data.
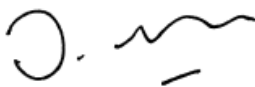
In the case of data currently collected through the LLWR improvements in data collection would lead to:

- Providers no longer have to produce data in a complex and increasingly out-of-date format at odds with the way that most of us submit data in the digital age.

- A reduction in validation failures for incoming data, improving processing efficiency and reducing work for providers.

- Increased flexibility as the current extended timescales relating to any changes to the data collection format could be greatly reduced.

- An improvement in overall data quality and streamlined sharing of data with the other organisations that are allowed to utilise it (e.g. Welsh Government).

Regardless of whether CTER becomes responsible for collecting LLWR or not, there is a need to update and improve it. Importantly if all or parts of LLWR were replaced with more efficient processes and up to date software then future changes to the system could be much easier and quicker to make to the data collection process, reducing pressure on resources and costs, and reducing the burden on providers. It would also give the data users the ability to integrate additional data in the future leading to more insightful analysis.

I have copied this letter to the Chairs of the Children, Young People, and Education Committee and the Legislation, Justice and Constitution Committee.

Yours sincerely,

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