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# Executive summary

## Using this document

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This is the final report from Phase 1 of the Review into the Costs of Administering Education in Wales. The review was commissioned in February 2010 by Leighton Andrews as Minister for Children, Education and Lifelong Learning. This seven week initial review was to identify the costs of education administration and propose initial opportunities to shift that cost. The report is presented in the following sections.

Section 1	Section 2	Section 3	Section 4	Appendices
<b>Defining Service &amp; Support</b>  This section describes our approach. It describes the standard model we have used to define administration in terms of support to service and to interrogate the cost of this activity across the sector.	<b>Costing Service &amp; Support</b>  This section sets out our cost analysis for Welsh education and constituent organisations. This analysis is high level but appropriate to the conclusions drawn in the report. It has been prepared with stakeholders and will be further assessed in subsequent stages.	<b>Changing the Balance of Cost</b>  This section sets out a first view of hypotheses for how the sector could increase the proportion of cost spent on the learner. These hypotheses have been discussed with stakeholders and will be further tested in subsequent stages.	<b>Achieving the Change</b>  This section sets out how the sector might approach implementation of the change and discusses the conditions that should be in place for the change to be implemented successfully.	We have provided a detailed explanation of the cost allocation prepared during the review.

## Defining service and support

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Our first challenge was to produce a useful definition of administration against which we could prepare a cost. To avoid unhelpful value judgements from using the word “administration” we have defined administration as the set of support activities that do not deliver services to learners directly. This split does not imply a strict value judgement although, in preference, cost should be deployed effectively to service ensuring the appropriate balance with support functions.

We have prepared a standard activity model to separate service and support activity. We have defined service activity as direct learning and teaching, professional support to educators, the delivery on non-education services to learners and research and knowledge transfer in Higher Education. We have defined support activity as strategic and support functions (including the traditional back office, premises, strategy and policy and general administration), the management and administration of service staff and handling and assessing requests for information and service.

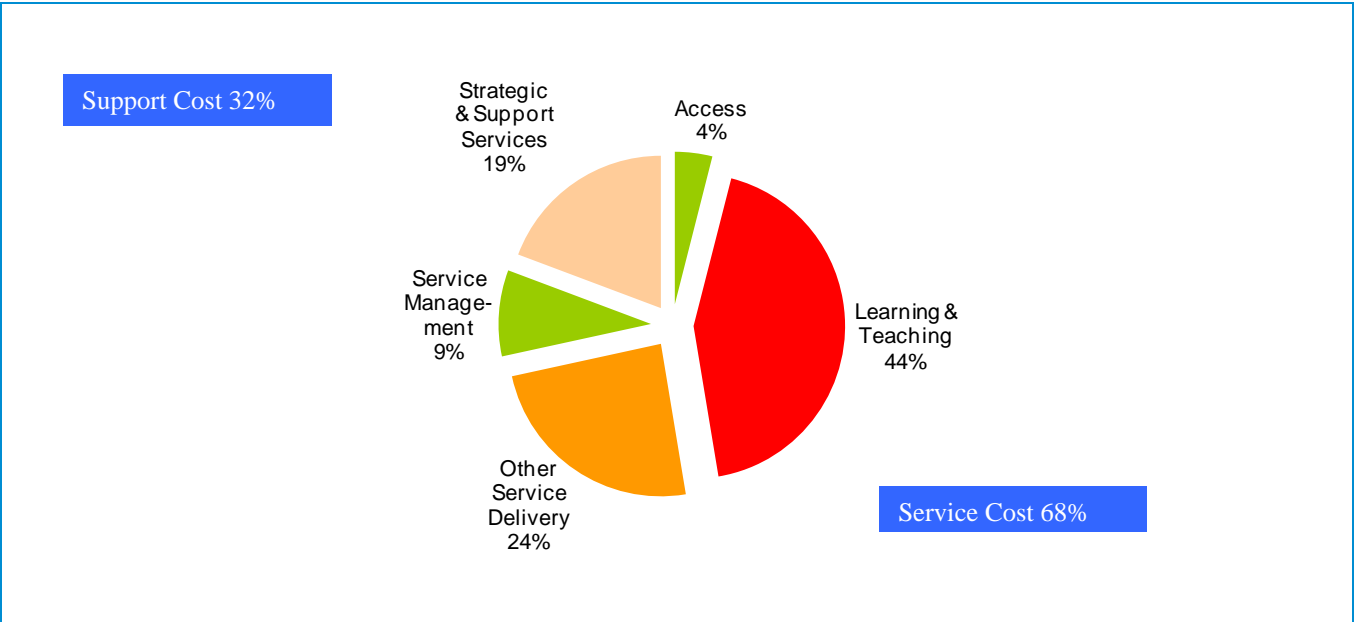
## Costing administration

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We have allocated cost across the activity model based on what people do rather than by the organisations where people sit. The activity model analysis provides a very different view of cost from traditional budgets and exposes support cost at all levels of organisation. The model is standard and has produced a common view of cost across Local Authority education services, schools, Higher Education (HE), Further Education (FE), the Department for Children, Education, Lifelong Learning and Skills (DCELLS) and Non-Departmental Public Bodies.

The following pie chart summarises the allocation of the gross expenditure of the bodies included within the review (£4.162bn) across the activity model. The allocation is based on the expenditure of the organisations within the scope of the review, rather than the source of income. This is particularly important in understanding the HE allocation as HE institutions receive a large proportion of their funding from research grants and other sources in addition to central government funding.

On this analysis, 44% of cost is direct learning and teaching. By adding other service delivery including non-education services, professional support to educators and research the total service cost represents 68%. The remaining 32% is support cost representing the back office, access and assessment and service management and administration.



**Diagram 1 – Total Allocation Activity Summary**

We suggest that this 68% / 32% split is the axis across which the Minister should focus on shifting cost.

This analysis has been completed for each institution type through a combination of subjective budgetary analysis, supporting management information, activity analysis through survey or using proxy examples, and stakeholder understanding. It can be extensively improved by asking sample constituent organisations to complete the standard model themselves in Phase 2. However, our experience of using this model to inform transformation programmes is that we wouldn't expect material shifts in the overall proportions.

The balance of cost changes by institution type. The greatest proportion of support cost in front line organisations is found in HE with the lowest found in delegated Schools expenditure. 18% of local authority (LA) retained expenditure is support which reflects partially their reliance on their home authority for support.

### Changing the Balance of Cost

We have outlined ten hypotheses within two themes which could potentially deliver a significant shift of cost to learning and teaching. At this stage we propose these opportunities only as a reasonable basis on which to proceed to further testing. We were fortunately able to engage with over 100 senior officers and politicians across the sector during our work. We therefore have confidence that the following hypotheses may be an acceptable basis on which to proceed.

The themes and projects are outlined as follows:

## Simplify Governance

Throughout our consultation with stakeholders at all levels there is a strong perception that the functions of system governance are unnecessarily driving cost. The total cost of strategic support including strategy and policy development, business information and reporting and quality assurance at all levels is £117m including the supporting costs of DCELLS, Estyn and the Higher Education Funding Council for Wales (HEFCW). This simplification of governance and focus in policy development is particularly appropriate as the sector enters a period of financial constraint and is less able to resource the delivery of a large number of policy initiatives.

- **Simplify grant structures** – reduce the number of specific grants requiring individual management and administration in favour of a smaller number of formula based grants focused on key outcome measures.
- **Prioritise the policy portfolio** – set a cap for the amount of policy development within the system and prioritise the portfolio based on value and achievability to focus a reduced resource on key policy objectives.
- **Rationalise inspection and performance management** – focus and reduce inspection resources using a more tailored rationale for when and how a given organisation is inspected. Assess and decommission redundant data flows and increasingly apply few and more transparent outcome measures.

## Standardise and Share Provision

Education in Wales is delivered with the involvement of at least 60 institutions outside schools. Each of these institutions delivers its own strategic and support services and has distinct arrangements for managing access and education support services, many of which require common systems and processes. These functions are not configured to deliver best value. There is an appetite for reducing the number of institutions although political difficulties mean that this is not a fast route for shifting cost. The following hypotheses present a more practical opportunity:

- **Standardise and share educational support within regional consortia** – the 22 local authorities deliver education configured to provide support to schools through a small number of consortia-based teams operating standard and where appropriate shared provision. This will reduce overhead cost and should improve service and larger teams will allow for greater utilisation and specialism but are tentative. We would propose a rapid pace to design and implement an overall national consortia model.
- **Integrate local authority education service, local authority and further education non-education support functions by geography** – many education specific organisations may not be large enough to efficiently justify standalone teams delivering back office support to their own design. The sector will reconfigure to deliver critical mass. This may best be achieved through common delivery from the co-terminus local authority. Most local authorities have achieved this to some extent. This hypothesis would require the integration to be progressed more fully.
- **Schools collaborate to deliver better support** – schools form clusters to share resources, approaches and facilities, both reducing support cost and getting better value from service resources. This is interlinked with the current approaches for school federation and the Schools Effectiveness Framework.
- **All non departmental public bodies use a single back office** – Estyn, HEFCW and the Careers Services operate discreet strategic and support functions. In scale these are a fraction of the organisation supported by the Welsh Assembly Government ('WAG') and a move to provide support centrally would reduce overheads substantially.
- **Standardise access, assessment and admissions processes** – the processes by which learners, citizens and third parties apply for places, for grants or other services and supporting information costs £152m across the system. Schools and college admissions are on the whole completed using manual processes designed by the receiving organisation. We believe similar non-standard approaches are used for processing applications for Special Education Needs (SEN) support. This hypothesis looks to deliver access and assessment using standard processes and systems between institutions leading to reduced cost, increased citizen self-service and a richer, more accurate response to enquiries.

- **Simplify, standardise or share the support to Higher Education** – by reconfiguring the delivery of support services between faculties within institutions, and between institutions, performance can be improved and costs reduced. This has not been a theme of current collaboration and merger work sponsored by the sector and the potential has not been realised to date.
- **Converging on leading practice in common support functions** – increase the pace of improvement by developing a common measure of leading practice for each support function and setting a presumption that each organisation will self-assess, establish the performance gap and address it.

## Assessing the impact of the hypotheses cost

At this stage it is not possible to delegate targets or budget for the level of savings that would be generated by these hypotheses. This phase has not assessed the current or potential levels of performance at each institution. However, it is clear from industry analogy, discussions with stakeholders and from our experience of transformation that significant potential exists to release support costs through rigorously implementing the changes set out in this document. We also believe the sector should set a bold and specific ambition to drive further testing and development of these savings opportunities.

The following table sets out some potential ranges to give a sense of the magnitude of cost impact for each hypothesis. A key element of Phase 2 work is to test the assumptions underlying these numbers as part of the overall case for change. These are gross numbers and do not reflect implementation costs nor timings. They also do not net off current savings planned by these institutions.

	Cost Base Affected £000	Range of Impact
Simplify Governance (Prioritise strategy and policy portfolio, simplify grant structures and the performance and inspection regime)	116,760	10 – 20%
Provide Education Support through Regional Consortia	562,000	5 – 10%
Integrate local authority education service, LA , and FE non-education support functions on a geographical basis	283,608	10 – 15%
Assembly Sponsored Bodies and Careers Companies use a single back office	13,151	20 – 25%
Standardise access, assessment and admissions processes across sectors	151,640	5 - 10%
Schools improve support through collaboration	156,405	5 – 10%
Simplify, standardise or share the support to Higher Education	359,553	5 – 10%

## Achieving the Change

The hypotheses outlined above are not wholly original and in some respects are already being addressed within the sector. In other respects, although the ideas are accepted in principle they have yet to be implemented in practice and be seen to deliver the level of service and cost improvement now demanded. For example, extensive analysis of the complexity of grant funding has not yet resulted in an accepted simple model for funding.

Irrespective of the impetus to shift more funding to front line education, the sector will struggle to accommodate the likely overall reduction in funding from FY 2011. Thus, there is a great imperative to move rapidly to design and implement the above hypotheses. There is a strong feeling among stakeholders that the world has changed. Therefore, the challenge from this review may not be to debate the mechanisms for cost and service improvement, but rather how to shape an acceptable, safe and immediately actionable programme that, although complex, delivers coherently and at pace.

We have spent some time with stakeholders talking through how an acceptable and actionable programme might be designed. We would relay the following key principles:

- **A national deal** – to be politically acceptable across the system, each constituent organisation must play a part with an equal focus on reducing the costs of governance and reconfiguring provision.
- **A national presumption to give direction and pace** – the local appetite for change is building, but to cut through resistance and to deliver efficiently the sector should work towards a presumed model and use commonly developed tools and methods to deliver it.
- **Adopt or amend** – allow for local configuration and progressive adjustment of the model to best accommodate local circumstances and workable coalitions of stakeholders while setting an expectation of challenge and pace.
- **A new trust across the system** – in many respects the complexity of governance and the fragmentation of delivery has arisen because of the lack of trust both vertically and horizontally. “If I don’t trust providers to deliver I will increasingly use funding levers and regulation to force a solution.” “If I don’t trust others to deliver for me then I will create my own directly managed service irrespective of how inefficient that may be.” Many hypotheses above demand new ability to deliver through others, replacing line management, enforcement and control mechanisms with dialogue, transparency and an acceptance of a mutual responsibility to deliver.

This report will hopefully be useful in providing an evidence base and some opportunities to shift resources. The opportunities stated here have been developed with several stakeholders and have been received positively. In assessing readiness for sector change we would expect the following:

- Stakeholders accept that it is not possible to continue on the current basis and secure front line education. The pain of inaction is real and worse than the pain of action.
- Stakeholders understand and recognise the hypotheses for shifting cost and protecting service and believe them to be relevant and positive to their own organisation and cost base.
- Stakeholders believe that a shift in cost is possible and have helped shape an overall approach to deliver it nationally and locally.

We would suggest that Phase 2 of this review is primarily about building a case for change to deliver the above. We would suggest the following:

- A broad engagement with leaders across the sector to confirm that the hypotheses in this document are a reasonable working premise for testing.
- The engagement of at least a sample of the institutions in analysing their cost base at a detailed level using the tools and approaches used here. This has the advantage of building a common national taxonomy for both education and support functions and a consistent way of interrogating cost. It will also help to build ownership of the change programme.
- The development of these hypotheses further using two approaches:
  - A national design team working through the initial view of what a presumed model and approach to deliver might look like, how such a programme would be shaped and governed and how benefits and funding would be managed.
  - A local challenge to identify opportunities to shift cost within institutions through applying both these hypotheses and using leading practice tests to confirm local improvements.

Phase 2 also offers the opportunity to undertake sector benchmarking where this would prove effective and informative to the forward change programme.