

Meeting	Agenda Item	Reference No
2/07/10	13	HEFCW/10/62

1 Issue

This paper presents the PricewaterhouseCoopers (PwC) report of their 'Review of the cost of administering the education system in Wales'. The review commenced in late February 2010 and the report was published on 18 May 2010.

2 Rationale for paper

- 2.1 The review was commissioned by the Minister for Children, Education and Lifelong Learning (MCELL) to, in the first instance, quantify the administration costs of the education system across Wales and then identify opportunities for reducing these costs to increase the resources available for the delivery of 'front line' services. The scope of the report includes all education providers and funders in Wales and the report's recommendations need to be addressed by both the HE sector and HEFCW.

3 Recommendation(s)

- 3.1 The Council is invited to:
- i. note the PwC Report on the Review of the cost of administering the education system in Wales (and the MCELL's statement in respect of the report) attached at Annex A; and to
 - ii. consider and discuss the report's recommendations (as relevant to HE and HEFCW) and initial proposals for addressing these

4 Timing for decisions

- 4.1 This paper does not require any decisions by Council at this stage.

5 Council members' interests

- 5.1 No Council member has declared any further interests to those set out in the Register of members' interests which are of specific relevance to the matters covered in this paper.

6 Further information

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7 Background and methodology

7.1 The Minister for Children, Education and Lifelong Learning (MCELL) announced his proposal to review the administration cost of education in Wales in January 2010 and PricewaterhouseCoopers (PwC) were commissioned in February 2010 to complete the review. The following education providers and funders were included within the scope of the review:

- Local Education Authorities (including all schools related funding)
- Further Education (FE)
- Higher Education (HE)
- Department for Children, Education and Lifelong Learning and Skills (DCELLS)
- Careers companies
- The Education and Training Inspectorate for Wales (ESTYN); and
- HEFCW

7.2 In order to attempt to identify ‘administration’ costs consistently across all the providers and funders and (as stated in the report) to avoid unhelpful value judgements from using the word “administration”, PwC defined administration as the set of ‘support activities’ that do not deliver services to learners directly. Support activities (administration) include:

- 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 services.

Service activities (front line delivery) include:

- Direct learning and teaching
- Professional support to educators
- Delivery of non-education services to learners (e.g. catering, transport, library costs and financial advice (but not the cost of student residences)) ; and
- Research and knowledge transfer in HE

7.3 The standard activity model adopted for the review aimed to allocate costs between Service and Support based on what people did within each organisation. The cost allocation was based on all the expenditure of the organisations within the scope of the review and not by the source of income. Consequently all HE costs are included though the report recognises that a large proportion of HE funding comes from sources other than the Welsh Assembly Government (WAG).

- 7.4 Whilst the aim of the review was to provide a consistent analysis of Support costs across all the organisations it is questionable whether the methodology adopted has achieved this. There are many differences in the nature, sources and quality of the data available and used from the various organisations that give rise to several questions about the consistency of information and data. It is also questionable as to whether the review methodology was able to take proper account of the differences between the sectors, in particular for HE where 21% of the total expenditure is identified as property support cost which, unlike schools and most of FE, includes student accommodation costs. PwC recognise within the body of the report that there are differences in HE particularly with respect to HE Estates and infrastructure costs but these points are not then drawn into the report's conclusions. The report states that:
- HE Strategic and support services represents expenditure of £360m (35%). "The main element of this is property, estates and property management with 60% of this expenditure, followed by strategic support at 7% which includes bidding activity. 85% of the property, estates and property management costs comprise premises, residences and catering costs. This level of cost is not surprising given the scale and state of university estate."
- 7.5 Another issue is the potentially misleading impression given in the report of the degree of HEFCW's involvement with, and confidence in, the work underlying the report. At an initial meeting with PwC the Chief Executive and Directors provided all the requested information but expressed some doubt about the validity of the proposed costing model with respect to the activities of HE. The HEFCW directors subsequently met with PwC to discuss a draft of the report with respect to HE. This draft showed a very high proportion of HE costs as support expenditure which at the time they believed PwC themselves were not comfortable with and subsequently the Director of Finance and Corporate Services provided PwC with a more detailed breakdown of some of the HESA data provided by Cardiff University. HEFCW directors were led to believe that they would be consulted again once PwC had updated the report to provide a 'reasonableness' check but nothing further was received before the report's publication on 18 May. The Chief Executive wrote to the Director of Lifelong Learning and Skills at WAG on 21 May to inform him of these concerns.
- 7.6 The report concludes that 32% of the £4.162bn education expenditure included within the review is attributable to Support costs with the HE sector highlighted as having the greatest proportion of support costs at 52%. The report then goes on to identify two themes and ten recommendations for taking forward projects to realise opportunities for the transfer of costs from Support to front line Service. These recommendations and potential cost implications are summarised on pages 5 to 7 and discussed in more detail in section 3 of the report from page 33 onwards. The themes and recommendations include the following:

Theme 1 – Simplify Governance

1. **Simplify grant structures** – favour smaller number of formula based grants focused on key outcome measures.
2. **Prioritise the policy portfolio** – limit the amount of policy development and focus resource on key policy objectives

3. **Rationalise inspection and performance management** – introduce more tailored rationale for when and how organisations are inspected. Identify and stop redundant data flows and apply few and more transparent outcome measures.

Theme 2 – Standardise and Share Provision

4. **Standardise and share educational support within regional consortia** – deliver the schools support provided by the 22 local authorities through a small number of consortia based on a national consortia model
5. **Integrate local authority education service, local authority and further education non-education support functions by geography** – reconfigure to deliver critical mass and efficiencies.
6. **Schools collaborate to deliver better support-** form school clusters for sharing or resources, approaches and facilities.
7. **All non departmental public bodies use a single back office** – look at opportunities for reducing overheads in HEFCW, ESTYN and the Careers companies by utilising shared support functions and/or central WAG support.
8. **Standardise access, assessment and admissions processes** – for common transactions that are currently dealt with differently by different schools, local authorities and colleges including schools admissions, college enrolments, maintenance of student information, Special Educational Needs (SEN) assessments and grant applications from individuals.
9. **Simplify, standardise or share the support to Higher Education** – reconfigure the delivery of support services between faculties within institutions and between institutions.
10. **Converging on leading practice in common support functions** – accelerate improvement in the delivery of support functions by self assessment against common measures of leading practice to identify and address performance gaps.

7.7 Whilst recommendations 7 and 9 are directly relevant to HEFCW and HEIs respectively many of the other recommendations are also relevant in particular the proposal for simplification of grant structures and the regional consortia approach to the provision of education support services. It is also worth noting that the report does not refer to the efficiencies already achieved by HEIs by their use of UK wide HE shared services such as JISC, HESA, UCAS and many more. These already provide shared services to HE in many of the areas identified in the report such as Information Systems, Data management and admissions applications.

7.8 An analysis of the gross expenditure and the source of the financial information for each organisation is provided in a table on Page 13 of the report. The activity cost analyses for each education sector and funder are set out on pages 22 to 31 of the report with further detail provided in the Appendices from page 56 onwards.

- 7.9 The remainder of this paper focuses on the report's recommendations with respect to HEIs and HEFCW and the options for addressing these . HEI costs are analysed on pages 25 to 27 of the report with further detail in Appendix 2 (page 63) and HEFCW on pages 29 and 30 and Appendix 7 (page 79).

8 Recommendations relating to the HE sector

- 8.1 Though there may be some doubt about the robustness of the report's quantification of HE Support costs , there is little doubt that there are opportunities for improvements in operational effectiveness and efficiency through collaboration or mergers. The report's recommendation that HEIs should simplify, standardise or share support services to increase efficiency is entirely consistent with the reconfiguration and collaboration theme in the HEFCW Corporate Strategy. The report does not attempt to provide a robust quantification of the cost efficiencies that could be achieved or in which areas of support activity there is most scope for efficiency. This work will need to form part of the next phase of the review.
- 8.2 The proposals for taking forward the report's recommendations have not yet been confirmed. It is likely that we will have further information about this by the date of the Council meeting and an oral update will be provided then. However, HEFCW officers have had an opportunity to informally discuss the report's findings and recommendations with the WAG project manager for the review. As most of the report's themes are consistent with the HEFCW Corporate Strategy we have suggested that the most effective and efficient way of implementing the report's recommendations with respect to HE and monitoring progress would be by way of the For our Future project board.

9 Recommendations for HEFCW

- 9.1 The most significant recommendation with respect to HEFCW's own activities is the need to investigate further opportunities for cost efficiencies that could be delivered by shared "back office" support services either between HEFCW, ESTYN and the Careers companies or with WAG.
- 9.2 Again it is not yet clear how this recommendation will be taken forward. However, in the meeting with the WAG project manager, the Chief Executive suggested that the development of the plan to address this recommendation should take into consideration and aim to align with the work currently ongoing between WAG and its all its sponsored bodies (AGSBs) (lead by the Permanent Secretary) to improve the efficiency and effectiveness of these working relationships and consider opportunities for sharing services.

10 Financial implications

- 10.1 This paper has no direct financial implications. The implementation of the report's recommendations both with respect to HEIs and HEFCW will however have some resource implications.

11 Communications implications

- 11.1 The Report has been published and has received media coverage in Wales. Communications implications for the next phase of implementing the report's recommendations will be addressed when further details are available of the next steps. Communication of progress being made in delivering the HEFCW Corporate Strategy (which encompasses most of the recommendations) will be achieved by way of quarterly meetings with DCELLS, meetings with the For our Future project board and periodic meetings of the Chief Executive , Chair and Council with the MCELL.

12 Diversity and Equal Opportunities implications

- 12.1 This paper has no direct implications for age, disability, gender, race, religious belief, sexual orientation or the Welsh language.

13 Risk Assessment

Risk	Action to address risk
If the implementation of the recommendations is treated as a separate project it is likely to result in significant additional work and may not align and fit as effectively and efficiently as possible with other work ongoing to implement the Corporate Strategy.	Work with the WAG project management team with an aim to aligning this work with the work relating to the implementation of For our Future (FoF) (and monitored by the FoF Board) and, with respect to the recommendations for HEFCW, aim to align the work with the ongoing review of WAG and AGSB working relationships being lead by the Permanent Secretary.



Llywodraeth Cynulliad Cymru
Welsh Assembly Government

STATEMENT BY THE WELSH ASSEMBLY GOVERNMENT

Title:

Review of the Cost of Administering Education

Date:

18 May 2010

By:

Leighton Andrews, Minister for Children, Education & Lifelong Learning

In January this year I announced a review of the cost of administering the education system in Wales, to seek to ensure that more money reaches the front line. In February I announced that I had appointed PricewaterhouseCoopers to carry out the first phase of that review. They have now completed their report and I am publishing it today.

The terms of reference for the first phase of the review were, broadly, to identify the cost of administering education across Wales; the numbers working in administering the education system; and opportunities to move resources from administration to the delivery of front line services across the whole of the education sector. In undertaking their review, PricewaterhouseCoopers have looked at a wide range of information, sought targeted input from stakeholders, and gathered views on where the main opportunities exist to refocus resources to the front line. In total, they met more than one hundred stakeholders. These meetings have indicated that there is a significant degree of consensus across Wales in respect of their main findings. I am grateful to all those who participated in this process for their positive and constructive engagement.

Before I set out the report's main findings, I want to stress three things.

Firstly, we should acknowledge at the outset that much has already been done across the public sector in Wales, and specifically within the education system, to improve services and to achieve the highest possible standards of education and training. Across the education sector in Wales there are numerous examples of innovative practice which have delivered better services to learners and the best use of resources. For example, some local authorities are already engaged in developing a consortia approach to the provision of professional advisory services. There have

been a number of mergers in schools, further and higher education, and increasing co-operation in many areas, such as procurement. Some further and higher education institutions are already exploring opportunities for further collaboration... This review will build on these foundations.

The second thing I want to stress is that this review is not about cuts in funding. It is about freeing up resources, by changing the balance in funding between front line and support services... In the light of the PricewaterhouseCoopers report, it is clear that we have scope and opportunity, and indeed a responsibility, to do this.

Thirdly, this is not about a radical restructuring of education or local authorities although I hope that this Report will contribute to the growing momentum behind greater collaboration and improved co-operation at local level. I support the Minister for Social Justice and Local Government in his attempts to drive better collaboration through his policy of "Outcome Agreement plus".

In Wales we spend some £4.5 billion a year on the education system. The report analyses the bulk of this expenditure, and divides it between those services which provide front line delivery of education, and those which can be considered support services. It concludes that direct funding for learning and teaching, including educationally-focused expenditure such as professional support for teaching and research, accounts for around 68% of the total. The remainder, around 32%, is made up of support services, covering a range of functions such as the selection and admission of students, service management, financial administration, and so on.

Of course, the overall figure of around 32% of expenditure on support services masks considerable variation across sectors and organisations. There are examples of good practice which we can learn from and spread more widely. But the report provides compelling evidence of the opportunities that exist and the need to examine this balance further.

On the basis of the evidence and the input from stakeholders, the report identifies key opportunities which should be considered further. These are grouped under two themes: Simplifying Governance; and Standardising and Sharing Provision.

Under the heading of Simplifying Governance, I will continue to look for opportunities to simplify the structure of grant schemes, by reducing the number of separate grants. There may be further scope to rationalise inspection and performance management regimes.

In relation to Standardising and Sharing Provision, there may be further opportunity to standardise and share educational support through regional consortia. There is scope to integrate non-educational support, where organisations are not large enough to justify stand-alone teams. Many schools are well-placed to form clusters to share resources, approaches and facilities. There is scope to standardise access, assessment and administration processes across institutions. Within the higher education sector I will be looking to find opportunities to simplify, standardise and reconfigure support services across faculties and institutions. And we can converge on leading practice in common support functions, by developing measures against which organisations can assess themselves and identify and address performance gaps.

The report suggests some practical ideas and opportunities to help us take forward; there is a wide measure of consensus around the analysis; and the response from stakeholders to date has been positive.

Now, however, we require a step change. All the organisations involved in the delivery of education have a part to play, with a shared vision, a shared sense of purpose and real urgency. The themes running through the report of simplifying , sharing and standardising are values which have a currency for the whole Welsh public service and I will be reporting the findings and particularly, recommending the approach to the Efficiency and Innovation Board, chaired by the Minister for Business and Budget.

I am publishing this report today in the hope that the entire Assembly will embrace it as a foundation for action.