

Jeremy Miles AS/MS
Gweinidog y Gymraeg ac Addysg
Minister for Education and Welsh Language



Llywodraeth Cymru
Welsh Government

Our Ref: MAJMEWL165822

Peredur Owen Griffiths MS
Chair of the Finance Committee
Senedd Cymru

14 June 2022

Dear Peredur,

Tertiary Education and Research (Wales) Bill – Revised Regulatory Impact Assessment

Following the completion of the Stage 2 proceedings in respect of the Tertiary Education and Research (Wales) Bill, and in line with Standing Order 26.28, a revised Explanatory Memorandum has been laid and I would like to bring the changes which have been made to the Regulatory Impact Assessment to the Committee's attention.

The overall estimated cost of the Commission has increased from £198.5m to £199.5m (0.6%). Transition costs have reduced from £9.9m to £9.6m (4.0%) and recurrent costs have increased from £188.5m to £190.0m (0.8%).

Increases to the cost of the “do-nothing” option (£5.1m) mean the additional cost over and above the do-nothing option of CTER has reduced from £45.0m to £41.0m. Increases in HEFCW staff numbers are a majority cause of the increase. Since 2019, when HEFCW staff numbers were baselined, HEFCW's FTE has risen by 6.5. Staff costs have been recalculated using this revised figure and increases HEFCW annual running cost by £381K, £3.8m over the 10-year evaluation period. The remaining £1.3m increase are Welsh Government staff costs increases due to updated pay scales.

Table 1. Summary of total costs over the 10-year evaluation period

	Revised Costs (£000s)	Original Costs (£000s)	Difference Revised verses Original (£000s)	%
OPTION 1: Do Nothing	158,560	153,420	5,140	3.4
OPTION 2: New CTER Body	199,547	198,454	1,093	0.6
OPTION 4a: Merge HEFCW into WG	172,355	172,223	132	0.1

The Committee's recommendations

Bae Caerdydd • Cardiff Bay
Caerdydd • Cardiff
CF99 1SN

Canolfan Cyswllt Cyntaf / First Point of Contact Centre:
0300 0604400

Gohebiaeth.Jeremy.Miles@llyw.cymru
Correspondence.Jeremy.Miles@gov.wales

Rydym yn croesawu derbyn gohebiaeth yn Gymraeg. Byddwn yn ateb gohebiaeth a dderbynnir yn Gymraeg yn Gymraeg ac ni fydd gohebu yn Gymraeg yn arwain at oedi.

We welcome receiving correspondence in Welsh. Any correspondence received in Welsh will be answered in Welsh and corresponding in Welsh will not lead to a delay in responding.

In my letter of 29 March, following the publication of the Committee’s Stage 1 report, I set out my initial response to the Committee’s recommendations. I can now provide further details for those recommendations in response to which the RIA has been revised.

In response to recommendation four, the revised RIA sets out the potential variances which costs may be subject to. The overall revised variance estimate is forecast to be between -10% to +7%. This represents a range between a potential reduction of £19.1m and an increase of £13.8m on the revised forecast costs. Further detail has been provided in Appendix A, at paragraphs 22-28 and tables A1 and A2.

Under recommendation seven the Committee recommended the Welsh Government undertake further work on a location strategy and include this information in the revised RIA. Work on the location strategy continues, including assessing the ongoing impact of COVID-19 and price volatility. As a result, the RIA includes revised costs, and a revised risk profile range of -17% to +15%.

In response to recommendation eight, the revised RIA makes clear the monetary impact and rationale of using IT consultants as the basis for costings. The inclusion of IT consultant costs does not represent a decision to use consultants but is a prudent forecast in the face of potential significant cost volatility and builds in risk and contingency. The Commission has a duty to ensure value for money so it will be for them to assess whether the long-term use of consultants meet that test. Appendix A, at paragraphs 60 to 75 and Tables A7 and A8 provides further detail.

Key revisions and updates to the RIA

Individual revisions to the RIA have both increased and decreased costs within the overall increase. A summary of key changes and their impact is set out below:

Timing The original RIA assumed the Commission would commence operations (and begin incurring full costs) on 1 April 2023. It remains my intention to establish the Commission during 2023 and adopt a phased approach to the implementation of the functions provided for in the Bill. Therefore, in keeping with this timeframe and to continue to have a prudent approach, the revised RIA assumes the earliest the Commission will commence full operation is 1 November 2023. This revision delays the start of incurring higher staff, IT, and rent costs, which results in savings of £2.6m over the 10-year evaluation period.

Table 2 - Comparison of original RIA ongoing annual costs versus revised RIA

Ongoing Annual Running Costs	Revised Costs (£000s)	Original Costs (£000s)	Difference (£000s)	%
Staff Costs	13,137	12,980	157	1%
Board Costs	477	276	201	73%
Redundancy				
Non-payroll staff costs	388	383	5	1%
IT Costs	5,141	5,157	-16	0%
Other Corporate Costs	654	638	16	3%
Location Costs (inc. Lease)	340	326	14	4%
Total	20,137	19,760	377	2%

Board Costs The RIA has been updated for the revised estimates of the number of Board and Statutory Committee members. The latest estimates call for twelve 'ordinary' Board members and a further sixteen members of two Statutory Committees. The original RIA costed for eight 'ordinary' Board members and a further four members for the Research Committee. It also did not cost the additional time required by members to Chair these Committees. This has resulted in an increase of £201K per year (Table 2), £1.3m over the 10-year evaluation period.

Staff costs Both Welsh Government and HEFCW staff costs have been updated to the latest pay scales (2021-22), the original RIA used 2020-21. As noted above HEFCW FTE has been adjusted for the increase in their staff and this has been offset by a decrease in the expected FTE transferring in from Welsh Government. Overall changes add £157K per year (Table 2). These increases are offset by savings generated by the revised timeframe and add a total of £0.5m over the 10-year evaluation period.

Table 3 – Comparison of original RIA transition costs versus revised RIA

Transition costs	Revised Costs (£000s)	Original Costs (£000s)	Difference (£000s)	%
Staff Costs	109	497	-388	-78.1%
Board Costs	241	241		
Redundancy	2,030	2,031	-1	0.05%
Non-payroll staff costs	292	431	-139	-32.3%
IT Costs	4,901	4,902	-1	0.02%
Other Corporate Costs	275		275	100.0%
Location Costs (inc. Lease)	1,702	1,847	-145	-7.9%
Total	9,550	9,949	-399	-4.0%

Interim CEO The original RIA assumed an interim CEO would be appointed in February 2022, but this is no longer the case with an interim CEO not deemed necessary. Removing these costs and adding the revised timeframe for the CEO (starting from April 2023) results in a saving of £388K transition costs. The recruitment costs for the interim and permanent CEO have also been eliminated and reduced respectively so non-payroll staff costs have also reduced by £139K (Table 3).

Location The revised timeframe delays the need for a physical office space and saves rent costs of £145K (Table 3).

Other Corporate Costs These decreases have been offset by a £275K increase in other corporate costs. These are interim support costs (legal, translation, insurances subscriptions) that the Commission will need before the Commission is fully operational. The original RIA did not envisage any interim period of Commission operation so did not include these costs (Table 3).

I would like to take the opportunity to again thank the Finance Committee for their scrutiny of the Bill.

I have copied this letter to the Chair of the Children, Young People and Education Committee.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Jeremy Miles', with a stylized, cursive flourish at the end.

Jeremy Miles AS/MS

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