



Mr Simon Thomas AM
Chair of the Finance Committee
National Assembly for Wales
Cardiff Bay
Cardiff
CF99 1NA

20 June 2017

Annwyl Simon

Finance Committee Inquiry into the accuracy and reliability of financial estimates accompanying legislation

Qualifications Wales Written Evidence

1. Qualifications Wales was established as the regulator of non-degree qualifications in Wales through the Qualifications Wales Act (2015). We were established on 6 August 2015 and took on our regulatory powers on 21 September 2015.
2. We have, therefore, been operating for 22 months. Our 2015/16 Annual Accounts cover the first 8 months of operation and we are in the process of having our draft 2016/17 Annual Accounts audited. We are also required to produce a separate Annual Report for the period September to August, describing how we have delivered our functions and our first Annual Report was scrutinised by the Children, Young People and Education Committee in December 2016.
3. This evidence provides information about our establishment and our views on the reasons for any differences between Welsh Government's RIA and our actual costs. We also comment on our current stage of development and provide some context to the nature of our costs.



Operating Costs compared to the RIA estimates

4. It is very difficult to meaningfully compare the RIA to our 2015/16 Annual Accounts because these accounts do not cover a full year, and an extrapolation will not be appropriate as some of the set-up costs covered in the RIA had been paid by Welsh Government, while others fell to QW in full. The following table shows the comparison for the period 2016/17 (using the figures from our draft accounts). Although this gives a better indication it is important to note that we are still maturing as an organisation and expect to see on-going variation in some cost areas.

	RIA	QW 2016/17 draft Accounts	Difference
Total	£8,124,000	£7,146,609	£977,391
Staff	£3,912,318	£4,087,895	-£175,577
Premises	£748,000	£461,639	£286,361
IT	£442,305	£330,483	£111,822
Programme (Grants, Research and Comms)	£2,380,000	£1,844,275	£535,725
Other costs	£641,377	£422,317	£219,060

Establishment

5. The Regulatory Impact Assessment (RIA) costs were largely based on PricewaterhouseCoopers' advice – which was drawn from a database of benchmarking information gathered from the public and private sector. As decisions were taken relating to establishment, these figures were replaced with more accurate estimates wherever possible prior to RIA publication.
6. The RIA assumed that most staff employed within Welsh Government on similar work would transfer to Qualifications Wales. In reality, very few chose to make the move and the vast majority of staff needed to be recruited.
7. Due to the wish to establish the new organisation quickly, some work took place in parallel to the legislation being developed. The CEO was employed by Welsh Government in October 2014 so that he could be involved in the key decisions that needed to be taken prior to establishment. For example, to be operational by September 2015, decisions on the preferred premises and the staff structure had to be taken to enable premises to be fitted out and staff recruited (with appropriate exit provisions in place if legislation were delayed). This helped with the accuracy of some projected costs, but nevertheless firm costs were not fully available until after the RIA was published.

8. The following points are worth noting as they affect our past and future cost:
- The fully populated staff structure was agreed by the CEO after the RIA was published. Working within the overall budget, the new structure had a slightly higher staffing with some posts upgraded. For example, two additional senior posts at Associate Director level were put in place and around 10 regulatory posts were set at the next grade up. These decisions were partly compensated by reducing the number of more junior posts;
 - During 2015/16 we had some permanent posts which we chose not to recruit at the outset – preferring to secure staff resources to fulfil immediate priorities and then consider whether the staffing structure was appropriate before completing recruitment. This included a decision to delay the recruitment of our Research and Statistics team;
 - The decision to delay to recruit the research and statistics team until after establishment reduced 2015/16 staff costs and delayed research expenditure;
 - Staff costs will increase over the next three years above inflation as we have adopted the Welsh Government pay scales and, given that most staff were newly recruited to the organisation, we anticipate their progression through pay scale points within their pay band as the majority are not yet at the top scale point. We also expect to see increases in travel costs as we further increase our stakeholder engagement activities;
 - Premises were secured that were efficient to operate and an attractive lease was negotiated resulting in lower on-going costs than estimated in the RIA;
 - Welsh Language grants for vocational qualifications have historically not been taken up fully. We have worked with awarding bodies to develop new processes that have improved take-up and we anticipate this growing over time;
 - The IT set up is different to that envisaged in the RIA, some costs are higher others are lower, overall costs are set to remain below RIA estimate;
 - Although running costs are stabilising we anticipate our focus areas changing each year as we continue to develop our strategic goals, grant schemes, research areas and priorities. We are also likely to see a continued trend of one-off IT projects, although our approach to maintaining a small in-house development expertise will reduce our exposure to spikes in associated costs.

Medium Term Financial Position

9. Last year we agreed with Welsh Government to take a 4% reduction in our grant allocation, with an expectation that further cuts would not be sought and that budgets would be flat lined for future years.
10. In agreeing to this we identified and implemented areas for savings and carried out some medium-term cost projections. We anticipate that our full grant allocation will be required from this year onwards. Our projections are that staff costs will form a greater proportion of our total expenditure, representing around 78% of our total budget by 2019/20.

11. Building our internal staff expertise and strengthening our operational independence from the qualifications Regulator in England, Ofqual, continues to be part of our development.

Yours sincerely



Ann Evans
Chair



Philip Blaker
Chief Executive