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Dirprwy Ysgrifennydd Parhaol / Deputy Permanent Secretary

Y Grŵp Addysg a Gwasanaethau Cyhoeddus
Education and Public Services Group



Llywodraeth Cymru
Welsh Government

Reference: HVT/2710/fgb

Mr Huw Vaughan Thomas
Auditor General for Wales
24 Cathedral Road
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9 August, 2017

Dear Huw

AUDITOR GENERAL FOR WALES DRAFT REPORT: THE 21ST CENTURY SCHOOLS AND EDUCATION PROGRAMME

Following my earlier letter in respect to the 21st Century Schools and Education Programme audit report, I am now pleased to enclose an update, which formally confirms our acceptance / acceptance in principle of the recommendations; provides an anticipated completion date for the recommendations; and reports on the progress made to date.

This information is contained within Annex A of this letter.

Yours Sincerely

Owen Evans
Deputy Permanent Secretary Education and Public Services

cc Cabinet and Plenary Mailbox
The PAC Chair
WG CGU Mailbox



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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.

Annex A

Recommendation One

Overall, our view is that the governance arrangements for overseeing and approving projects are sound. However we found that the final advice put to Ministers, on which to base their funding decisions, did not adequately reflect outstanding risks and concerns with the projects.

The Welsh Government has subsequently updated its approach but there is scope to go further. The Welsh Government should ensure that Ministerial briefings on which funding decisions are taken set out the actions taken in response to any concerns or conditions identified by the Capital Investment Panel

Response: Accept

Completion Date: Complete

The Welsh Government has already taken action in this area. The process to resolve queries arising from our Business Case assessment has been strengthened to ensure that we record all responses from our assessors. The vast majority of questions are resolved prior to submission for approval. Many are technical questions or matters which need clarification rather than issues which need to be drawn to the Cabinet Secretary's attention. In the small number of cases where there are issues which need to be flagged, these are highlighted in the submission to the Cabinet Secretary

Recommendation Two

Going forwards, the Welsh Government is likely to make some substantial changes to the way the programme is funded and managed. The Welsh Government will need to finalise updated governance arrangements for Band B of the programme that take appropriate account of:

- **the complexities of making use of revenue funding, learning from the experience of other parts of the UK; and**
- **any shift in the balance of funding between partners.**

Response: Accept

Completion Date: March 2019

The 21st Century Schools and Education Programme has robust governance arrangements in place, which takes into account both capital and revenue funding streams. Additional arrangements have already been put in place to oversee the development of the Band B Programme, along with the establishment of a Band B Panel which is comprised of senior Welsh Government officials. The Programme will continue to apply a co-construction approach in Band B, with the involvement of all delivery partners. This approach means that the Programme is developed and delivered on a collaborative basis and in true partnership with authorities.

In respect of revenue funding, the Mutual Investment Model has been developed taking into account learning from Scotland, England and Ireland. Officials continue to speak regularly with the Department for Education, Scottish Futures Trust and the European PPP Expertise Centre (EPEC).

Any shifts in the balance of funding will be decided following appropriate discussions with our stakeholders during the ongoing development of the Band B Programme.

Recommendation Three

The Welsh Government is currently consulting with councils and further education colleges about the funding for Band B and, in particular, if there is appetite to participate in the Mutual Investment Model. Recognising this ongoing work, the Welsh Government should set out its plans for funding Band B of the programme as soon as possible, taking into account:

- **the volume and cost of the remedial work required to bring all schools in Wales, including voluntary-aided schools, up to a good or satisfactory standard; and**
- **the capacity of councils, further education colleges and the diocese to fund further capital or revenue based investment in schools.**

Response: Accept

Completion Date: December 2017

Partners were asked to indicate demand for investment and their capacity to fund Band B works in April 2017, when they were informed that the grant intervention rate would be 50% for capital projects and at least 70% for revenue funded projects. Following this work, the Cabinet Secretary agreed a grant intervention rate for planning purposes: 75% for the Mutual Investment Model and 50% for capital. These intervention rates have been communicated to all delivery partners in writing and this message has been reinforced during recent meetings.

We will request information in the annual condition survey about the level of backlog maintenance required for each school, which will inform the level of investment needed in the educational estate.

We have also asked that our partners submit formal plans in respect of their Band B Programmes, which will require sign off at Cabinet / Board level. The plans were requested in May 2017 and they were returned by 31 July. These formal plans align with Treasury best practice and will include confirmation of strategic alignment; value for money, deliverability and affordability of the proposed improvements. Work will be done to ensure that the plans have the appropriate level of sign off. It is intended that the Cabinet Secretary will make an announcement about plans for funding Band B of the Programme by the end of October 2017, however a date of December 2017 has been put in place to ensure that any further questions or clarification in respect of this recommendation will be completed by this date.

Recommendation Four

A national condition survey in 2010 helped to provide a clear baseline on the condition and suitability of the school estate, although there has been little public reporting of the data or the progress of the programme nationally. Since then, councils have updated their data annually. A sample survey was also carried out in 2016 to assess consistency of data. Given the proportion of schools that were judged to be incorrectly categorised, we recommend that the Welsh Government:

- a. **urgently issue updated guidance on classifying schools, setting out any common issues and errors identified in the sample review;**
- b. **require councils to update their assessment of every school, based on the updated guidance.**
- c. **carry out another review of a sample of the data to check that councils are applying the categories correctly and consistently; and**
- d. **report publicly on progress to improve the condition and suitability of the school estate alongside achievement of wider benefits.**

Response: a) b) d) Accept, c) Accept in Principle

Completion Date: August 2018

- a) Our annual condition survey is being prepared for issue, which has been a yearly collection of data in place since 2013. This year, the survey has been enhanced so that both school and Further Education data is collected at the same time. This document includes guidance in respect of the sample surveys recently carried out, which will ensure that the method employed by our surveyors is replicated across Wales and reflects lessons learned.
- b) Our delivery partners will be required to use the revised guidance to update their estate assessments. As it is likely that this will take some time to fully implement this new methodology, we propose to ask that it be adopted straight away where possible, with a view to make this a mandatory approach by next year's data collection.
- c) Once this data has been received we will review the findings and consider further action, including whether a further sample survey is necessary to test the data.
- d) To ensure greater transparency in reporting, work is being undertaken to update the 21st Century Schools Website to report Programme progress in respect of school estate improvement and wider Programme benefits.

Recommendation Five

The programme has prioritised the reduction of surplus places and has been one of several factors contributing to a fall in surplus places, although most councils are still above target, especially for secondary school places. For Band B, the Welsh Government is prioritising building condition more than surplus places. The Welsh Government should continue to work with councils to:

- a. **ensure that the programme continues to contribute to a reduction in surplus places despite the shift in priorities, especially in those council areas where a growth in the secondary age population is not expected.**
- b. **ensure that building programmes for Band B appropriately reflect local demand for Welsh-medium education and the Welsh Government's intentions to substantially increase the numbers of pupils learning through the medium of Welsh;**
- c. **engage with Diocesan authorities to assess the likely demand for faith schools across Wales; and**

d. identify cost effective and timely approaches for councils that face acute pressure for new places.

Response: Accept

Completion Date: April 2019

- a) The identified aims of the Band B Programme are to:
 - a. Reduce the number of poor condition schools and colleges;
 - b. Ensure that we have the right size schools and colleges, in the right location that:
 - i. Provide enough places to deliver Welsh and English medium education; and
 - ii. Ensure the effective and efficient use of the educational estate.

Ensuring that we have the right sized schools and colleges allows our partners to promote projects that address both too few and too many places to ensure that local needs can be reflected. We have regular engagement with those local authorities which are facing pressure for places to understand the need for investment. Welsh Government policy officials who deal with provision of school places assess business cases for investment and ensure that surplus places are addressed through this process.

- b) The developing Programme specifies that we wish to have enough places to deliver Welsh-medium education, and our updated Guidance refers to the Welsh Government priority of one million Welsh speakers by 2050. Our request for a Strategic Outline Programme from our partners also highlights the importance of increasing provision for Welsh medium education, either through the creation of new schools or through existing schools moving along the linguistic continuum. This has been reinforced by our recent circulation of the assessment criteria for the Strategic Outline Programmes which include the need for alignment with Welsh in Education Strategic Plans
- c) We are working with Diocesan authorities in respect of Church schools to understand the demand for investment in the sector. Our current understanding is that in most cases, the drivers for investment in Church Schools in Band B are based on the condition and efficiency of the estate, rather than on pressure for additional places. The funding mechanism employed for church schools has been revised so that the 85% allocation given to church schools does not form part of the 50% authority allocation. It is hoped that this will ease pressure on the sector who deliver their projects collaboratively with authority partners.
- d) We work closely with all of our partners and part of this work involves identification of pressure points and where pressure for places may occur. This work will be ongoing as the Band B Programme develops.

Recommendation Six

Some of the completed new school buildings are not achieving the Welsh Government's energy efficiency and sustainability targets for the programme. We recommend that the Welsh Government strengthens its work with councils to:

- a. liaise with industry experts to understand the gap between expected and achieved energy efficiency performance and how it can be remedied and reduced in future projects.**
- b. challenge business cases that rely on significant savings from energy efficiency technology in the whole life cost assessment robustly; and**
- c. encourage schools to assess their energy use when the building is first occupied and then annually to ensure that they are benefitting from the anticipated recurring savings in energy costs.**

Response: Accept

Completion Date: July 2018

- a) Work has already been carried out to address this recommendation. A Best Practice Guide has been prepared and was presented to partners at three seminar events held in May. This Guide will be published on our website shortly. The Guide was prepared by Constructing Excellence in Wales in consultation with the construction industry.
- b) All business cases received are scrutinised by an Economist during the assessment process to ensure robust challenge of the value for money of projects and includes consideration of whole life costing and identification of potential cost reductions as a result of the build. We are also working with our Economists to run Economic Case Training for our delivery partners this year to ensure that they are equipped to drive the best value for money from their programmes.
- c) Our post occupancy review is being piloted with an expectation of wider roll out by July 2018. This survey includes identification of anticipated energy use and actual energy use to ensure that anticipated savings are being made.

Recommendation Seven

Analysis of the costs of completed Band A projects shows significant variation in the total costs as well as in ICT and fixtures, fitting and equipment costs. New schools have exceeded the maximum industry area standards by 7-10%. Some projects are using an approach known as Building Information Modelling in the design and construction phases that has been shown to achieve time and cost savings as well as improving quality. The Welsh Government should build on work already carried out to:

- a. reach agreement with councils, other partners and industry representatives on the options for bringing greater standardisation to the projects including floor area and elements of the build;**
- b. require the use of Building Information Modelling in projects within the programme; and**

- c. **provide more detailed guidance about the level of IT and fixtures, fittings and equipment that can be funded from the programme to ensure consistency between projects.**

Response: Accept

Completion Date: March 2019

- a) Agreement has been reached with local authority partners on the standard size and cost for new schools that will be funded by Welsh Government within the Programme. This standard is based on the sizes prescribed by BB98 and 99. The cost per square metre includes all above ground work, plus sub structure, design costs and external works. The cost per square metre was set at £2,500 (2016 costs). This work is being extended to identify a standard cost for further education, which sees more variation in the types of accommodation needed to deliver both academic and vocational learning.
- b) We agree to include the requirement for Building Information Modelling and will develop the Band B Programme on that basis.
- c) We have provided guidance around the maximum investment per pupil that can be funded from the Programme for fixtures, fittings and equipment and IT. This is set at a per pupil rate of £1,100 for fixtures, fitting and equipment and £500 for IT. The reason that we have applied a cost per pupil, rather than a specification is that this is a matter of policy for local authorities / Further Education Institutions. In addition, as IT is a fast moving area, it is likely that any such guidance would become quickly outdated.

Recommendation Eight

There is evidence that the regional procurement frameworks are not operating as intended, with some duplication and councils not adopting good practice in procurement methods. The Welsh Government should:

- a. **ensure that councils adopt accepted good practice in the approach to construction with a presumption in favour of design and build (excepting projects funded through the Mutual Investment Model);**
- b. **improve communication with industry on the likely timing and scale of work under the frameworks;**
- c. **understand and address the reasons why some councils are conducting pre-tender exercises despite contractors already having gone through the same process to get on the frameworks; and**
- d. **engage stakeholders, including councils and the construction industry, in developing and finalising the procurement framework in light of changes for Band B.**

Response: Accept

Completion Date: March 2019

- a) The Welsh Government has already adopted space and cost standards that will encourage local authority best practice and we improve partnership working to keep information on the pipeline of projects up to date and look to highlight upcoming

projects on our website. We are happy to encourage a design and build approach, however recognise that this will not be appropriate for all authorities.

- b) Industry engagement is planned for October when the results of the strategic outline programme assessment will be more apparent.
- c) From recent engagement it appears that there are a number of reasons why some authorities may wish to undertake pre-tender exercises. The most common of which occurs when batching of schemes has been desired. This exercise ensures that there are no procurement challenges should this route be sought. We continue to work with our partners to understand the different procurement routes available within the existing frameworks and will work with the Frameworks to understand whether any changes are necessary to allow for batching to take place without this additional step.
- d) We will work with our partners to ensure that the procurement frameworks are appropriate for our Band B Programme. This will involve seeking evidence from authorities and from the Frameworks in place.

Recommendation Nine

The Welsh Government has now established more clearly than in the past what benefits it wants to achieve through the programme. It has established a discrete set of targets for local supply chain, apprenticeships and training and STEM engagement with schools.

It is also clear that a future priority will be to make more community use of the school buildings. To increase the wider benefits flowing from investment in the programme, the Welsh Government should:

- a. ensure that its targets for projects remain stretching over time;**
- b. promote good practice in achieving community benefits, for example through regularly updated the 21st Century Schools website, regional networks and industry events; and**
- c. review how the identified barriers to increasing community use of school buildings can be addressed in Band B of the programme.**

Response: Accept

Completion Date: March 2019

- a) We agree that targets should remain stretching and these will be reviewed over time.
- b) To facilitate sharing of best practice, the Welsh Government held three seminars in May in partnership with Constructing Excellence in Wales to update partners on a number of subjects, including community benefits. The seminars also included opportunities to network and share best practice. We will continue to work with stakeholders to promote a consistent approach and our website is being updated to publish additional materials relating to good practice and updated guidance.
- c) Increased community access to school buildings is a priority identified in Band B, with an Investment Objective to improve flexibility of assets. Propositions for Band B projects are being developed and we will continue to work with partners to ensure

that cultural and practical barriers to increasing use of assets are overcome. This might involve a range of actions including designing schools to provide separate access for the community, and introducing claw back clauses into contracts so that if additional funding is provided for community space, it is subject to claw back should it not be used for this purpose.

Recommendation Ten

The Welsh Government has put in place arrangements for technical support to the programme. It has strengthened the capacity of its own team through recruitment of experts in public-private finance. It is also setting up framework contracts to provide technical support to councils. Given the technical changes to the programme under Band B, the Welsh Government should, at the end of 2018, fully review whether the arrangements are working to:

- a. provide the Welsh Government with the technical expertise it needs to manage and oversee the programme; and**
- b. provide councils with the technical support they need to plan and deliver the programme locally.**

Response: Accept

Completion: December 2018

- a) A technical advisor has been appointed from Vale of Glamorgan Local Authority to advise on the development of the Band B Programme, particularly in respect to the Mutual Investment Model.
- b) A mini tender is currently underway to secure technical support for both the Mutual Investment Model and capital elements of the Band B Programme. This contract is accessible to both Welsh Government Officials and our partners. The arrangements will be reviewed at the end of 2018 to ensure that they are fit for purpose.