

**Welsh Government draft budget proposals for 2013/14:
Finance Committee call for information –
A response from Higher Education Wales (HEW)**

1. About Higher Education Wales

1.1 Higher Education Wales (HEW) represents the interests of Higher Education Institutions (HEIs) in Wales and is a National Council of Universities UK. HEW's Governing Council consists of the Vice-Chancellors of all the HEIs in Wales and the Director of the Open University in Wales. HEW provides an expert resource on the Welsh Higher Education sector.

2. Introduction

2.1 The following information is provided in response to the invitation to submit information to the Assembly's Finance Committee by 14 September 2012. The invitation outlines four specific questions which form the headings of our response below. In presenting our views we should emphasise at the outset that we currently operate in highly fluid environment and it is possible that our current assessment of requirements would need to be reviewed during the budget period.

3. Looking at the indicative budget allocations for 2013-14, do you have any concerns from a strategic, overarching perspective?

3.1 It is recognised that the present economic context provides a challenge for the Welsh Government. The Welsh Government rightly set jobs and the economy as their 'overriding priorities' in the Programme for Governance. Measured in terms of Gross Value Added (GVA) per capita, employment levels, and productivity, Wales' has not matched expectations¹, as is confirmed by the recent analysis contained in the Programme for Government Progress Report 2012. There remains an urgent need for Wales to take action to secure its long-term prosperity.

3.2 In our view, investment in higher education is critical for a buoyant economy in Wales and there is greater potential to drive future economic growth through prioritising invest in higher education. We also remain concerned that wider changes to higher education funding arrangements pose risks in terms of the unstable environment in which higher education has to operate currently. Overall we must ensure that decisions in the short-term do not store up problems or miss opportunities for the longer-term.

¹ Welsh Government. "Economic Renewal: A New Direction." 2010.

Driving economic growth

3.3 The Welsh Government's Programme highlights that 'of most significance is our work to create a well educated population that has the skills needed to sustain high levels of employment, continue to attract inward investment and work to support employment creation'(p.4). HEW has previously highlighted to the National Assembly and Welsh Government the critical importance of the higher education sector for the economy, for instance in its briefing 'Investing for the Upturn' (January 2011)² and more recently, for instance, in its responses to the Welsh Government's consultation on the Science and Innovation strategic agendas.

3.4 In particular, higher education is a key driver of long-term economic growth. Research by the OECD for instance identifies that, while a range of factors may have a short-run impact, long-run economic growth is above all determined by two factors which are strongly associated with universities: knowledge accumulation and technological progress.³ Similarly the evidence points to the fact that countries with high levels of innovation on average tend to have a stronger track record of investment in higher education and higher proportions of graduates in their populations.⁴ Given that the levers at the Welsh Government's disposal for influencing primary income and GVA per capita are limited in the short-run (Programme for Government Annual Report 2012 p.3 & 6), in our view investment in higher education should feature even higher in the Welsh Government's plans to secure sustainable economic growth.

3.5 Some of the key ways in which higher education contributes to the economy and can be further supported are as follows:

- 9,835 students from Welsh universities entered employment in Wales within six months of leaving in 2009/10.⁵ Universities make a major contribution to the knowledge-based economy, through its supply of graduates and postgraduates, by equipping them with the right skills to innovate and succeed in the work context. The Programme Report 2012 highlights a continuing gap in the percentage of working adults qualified to level 4 between Wales (31%), England

² <http://www.hew.ac.uk/EN/Publications/HEWPublications/Pages/InvestingintheUpturn.aspx>

³ OECD. "The OECD Innovation Strategy - Getting a head start on tomorrow." 2010.

⁴ Universities UK. "Higher Education in Focus: Driving Economic Growth - Higher Education a core strategic asset to the UK." 2011.

⁵ Higher Education Statistical Agency (HESA). "Destinations of Leavers from Higher Education (DLHE) 2009/10." 2011.

(34%), and Scotland (38%). The gap between Wales and England (-3%) is larger than at either Level 2 or Level 3. In our view, Level 4 qualifications need to form a higher priority in the Welsh Government's economic strategy to reflect this. This is an area where Welsh Government has direct control or influence.

- Higher education accounts for nearly half of all Research & Development expenditure in Wales.⁶ It is an essential part of the Welsh Government's strategy to transform the Welsh economy in the face of the downturn: 'Wales must move towards a more R&D intensive and knowledge-based economy where the right conditions exist for innovation to flourish'⁷. There is, however, plenty of scope for further success and for enhancing universities' role in fostering research, development and innovation in businesses and industry. Our own work with institutions suggest that there are a range of specific research capital investment opportunities which could make a significant impact on the achievement of the objectives of both science and innovation agendas, and wider objectives of the Department of Business Enterprise, Trade and Skills (BETS).
- In this context, the science and innovation agendas and the role of Universities in them have rightly been identified as important for Wales's economic strategy and should continue to be given high priority in the Welsh Government's budget allocations. A number of studies point to the importance of interaction between universities and business for stimulating innovation and economic growth.⁸ University research and innovation has been shown to help create high value industrial clusters.⁹ In particular Universities have been successful in attracting European funding for initiatives in this area and it is essential that Welsh Government policy supports universities and its partners in taking advantage of potential access to the significant amounts of European Funding European funding through contributing to Europe 2020 and the 'Innovation Union' flagship initiative¹⁰ and developing its regional innovation strategy as a pre-condition for Cohesion Funding 2014-20.
- Universities also have a significant direct impact on the economy in Wales. They are major employers in their own right with a total turnover of over £1.2bn.

⁶ Welsh Government. "R&D expenditure by UK country." *StatsWales*. March 2012.

<http://www.statswales.wales.gov.uk/TableViewer/tableView.aspx?Reportid=1610>.

⁷ Welsh Government. "Economic Renewal: A New Direction." 2010.

⁸ Lambert, Richard. *Lambert Review of Business-University Collaboration - Final Report*. HMSO, 2003.

⁹ Well-known examples include Silicon Valley, Massachusetts Route 128, North Carolina's research triangle and, closer to home, the Cambridge effect: (Higher Education Wales 2011)

¹⁰ European Commission.. "Europe 2020." n.d. http://ec.europa.eu/europe2020/index_en.htm.

Based purely on patterns of expenditure, for every £100m that is invested in higher education £102m will accrue to industries located in Wales (a comparatively high 'multiplier effect'). Universities also play a significant role in leveraging additional resource into Wales. In 2007/8 for instance the university sector gained £238m of export earnings for Wales and generated an additional direct boost to the Welsh economy of more than £90m a year from attracting students from outside Wales. Funding for higher education is an investment that leads to increased income generation throughout the economy.

4. Looking at the indicative budget allocations for 2013-14, do you have any concerns about any specific areas?

Sustainability

4.1 The most up-to-date analysis of the financial position of the higher education sector in Wales is contained in the Higher Education for Wales (HEFCW) Circular W12/08HE. In 2010/11 there were 11 higher education institutions in Wales with a total income of £1,243m of which 34% came from Funding Council grants. The sector reported an operating surplus of £36m (one institution reported a deficit). Nevertheless, the report concluded that *'the figures for 2010/11, when adjusted to take account of the full economic cost adjustments for the cost of capital and infrastructure, show that the sector's position is an aggregate deficit of £56m compared with a deficit of £62m in 2009/10. This represents the degree to which the sector is not in a position to provide for a fully sustainable future.'*

Risks

4.2 The student finance and funding position has changed significantly since this analysis and many major changes are still to be implemented. There are many uncertainties and factors which make reliable predictions of the impact of these policies and the adequacy of the resource levels difficult to assess.

- Full-time undergraduates. The key risks of the current teaching grant reductions relate to higher-cost subjects, potential loss of students achieving grades AAB or higher at A-Level, and potential under-recruitment across the sector due to strategic reallocation and/or changes in recruitment patterns associated with the new funding and student support mechanisms in Wales and the UK. The Higher Education Funding Council has suggest that there may be potentially increased income for universities in 2012/13 (Circular W12/10 HE, para 52 and Table 7) based on assumptions about fees, but there are many assumptions and variables reflected in this.

- Part-time funding. As highlighted by the Funding Council in its Circular W12/10HE *'the overall level of part-time and postgraduate taught teaching plus Public Investment Fund (PIF) allocations [for 2012-13] is substantially lower than would have been allocated in the past through the teaching grant'* (paragraph 20). There will be a particular need to manage the transition years for part-time providers where there is a risk of a significant drop in support.
- Postgraduate funding. The future of postgraduate funding has yet to be determined.
- Research funding. The overarching requirement is to retain or increase the budget for research.

Competitiveness

4.3 Previous analyses have pointed to a gap in the levels of investment in higher education in Wales and other countries. HEFCW's Report identified a funding gap with England of up to £69m and rising in 2007/08 based on GIA per fundable FTE. The Learned Society, based on HEFCW's data, estimated the negative funding gap with England per student had grown from £20 to £900 per student between 2000/01 and 2008/09 and the cumulative gap between 2000 and 2009 was £361m (and more for Scotland). This means that universities in Wales have been at a significant comparative funding disadvantage throughout most of the preceding decade.

4.4 In terms of related budgets, Wales' current level of investment in innovation appears to fall below the recommended level of 3% of GDP recommended by the EU Commission as part of their Horizon 2020 agenda.

5. What expectations do you have of the 2013-14 draft budget proposals? What spending commitments and priorities would you like to see reflected in the 2013-14 draft budget proposals?

5.1 The Welsh Government's indicative spending plans for 2013/14 were approved by the National Assembly in the Final Budget 2012/13, agreed in December 2011, and included £380m for higher education for each of the three years covered from 2012/13 to 2014/15. The Supplementary Budget 2012/13 published in June 2012 increased the allocation for higher education in 2012/13 by around £2m. The Post-16 learner support budget also specifically included an increase to cover the costs of part-time higher education student access to student loans of £4.3m in 2012/13 rising to £13.8m for 2013/14.

6. The new Welsh Government has published its Programme for Government. We will be using this document to guide our scrutiny of the 2013-14 draft budget. What changes would you propose to ensure that the budget delivers the objectives set out in the Programme for Government?

6.1 HEW continues to support the Welsh Government in achieving its objectives. As argued above, there would be in our view further benefit in recognising that higher education is wider significance for the economy and a range of objectives including Welsh Government's objectives for health, the low-carbon economy, and culture. In our view, this means a coordinated approach across departments.

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