

Welsh Government draft budget proposals for 2014-15 A Response by Higher Education Wales

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.

2. Introduction

- 2.1. The following comments are provided in response to the invitation to submit information to the Finance Committee of the National Assembly for Wales by 13 September 2013. The Consultation Letter outlines four specific questions which form the headings of our response below. HEW will be responding to the Finance Committee's call for evidence relating to the Higher Education Funding Inquiry by 27 September 2013 which will cover many related issues in more detail. 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. Question 1. What, in your opinion, has been the impact of the Welsh Government's 2013-14 budget?

- 3.1. It is recognised that the present economic context provides a challenge for the Welsh Government. The higher education budget for 2013/14 was £382 million. This was similar in nominal terms to the Final Budget in the previous year (£380 million)¹ but a reduction of nearly 2% in real terms.² Over the last three years the higher education budget has reduced significantly from £452 million in 2010/11 in the Second Supplementary Budget (£70 million or 15% in nominal terms, and £96 million or 20% in 2012/13 terms). In 2012/13 there was also a major change in the amount of funding allocated by HEFCW directly to Welsh universities which significantly reduced as fee grant payments increased by two thirds to £167m (including £50m to institutions outside Wales). The budgets for teaching (-31%) and innovation & engagement (-45%) were significantly reduced, while research funding remained static. According to HEFCW's estimates all universities in Wales (except

¹ The Final Budget 2013/14 for higher education was £380,424, the First Supplementary Budget £382,375, and Second Supplementary Budget £371,026.

² Based on HM Treasury GDP deflators as at June 2013.

the Open University) were expected to benefit from increased net funding as a result of increased fee income, but the actual net position was dependent on recruitment patterns and cross-border flows and is not yet clear. The key outstanding issues for higher education in Wales remain as follows:

Competitiveness

- 3.2. For Wales to remain competitive, its universities need to remain competitive. There is a wide range of evidence to suggest that investment in universities will have an impact on the economic growth and international competitiveness of Wales as a whole.³ 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. Long-run economic growth is above all determined by knowledge accumulation and technological progress.⁴
- 3.3. Investment in higher education needs to take into account an increasingly competitive international context. Expenditure on higher education in the UK as a whole appears to have been relatively low in recent years (1.2% GDP in 2010 compared to the US at 2.7% for instance).⁵ Previous analyses indicate that universities in Wales have been at a significant comparative funding disadvantage to other UK countries throughout most of the preceding decade. HEFCW's Report identified a funding gap with England of up to £69m and rising in 2007/08.⁶ 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).⁷ The European Commission has set a target of 3% of GDP for investment in innovation for countries within the European Union to remain competitive globally in the long term.

Risk and uncertainty

- 3.4. Universities need to address significant risks and uncertainties in a continuing period of major change and transition across the UK.

³ See e.g.: Kelly, McNicoll et al., The Economic Impact of Higher Education in Wales, June 2013, commissioned by HEW.

⁴ OECD, "The OECD Innovation Strategy - Getting a head start on tomorrow." 2010.

⁵ UUK, "Higher Education in Focus: Driving Economic Growth - Higher Education a core strategic asset to the UK." 2011.

⁶ HEFCW, The Funding Gap 2007/8, undated:

http://www.hefcw.ac.uk/documents/publications/hefcw_reports_and_statistics/Funding%20gap%202007%2008.pdf

⁷ The Learned Society of Wales, "Comments of the Council of the Learned Society of Wales on the Welsh Government's support for the universities in Wales", March 2011.

- 3.5. The long term financial outlook of universities in Wales needs to be kept under review. The Higher Education Funding Council for Wales (HEFCW) in its most recent analysis of the financial position of the higher education sector in Wales concluded that: “The figures for 2011/12, 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 £64m compared with a deficit of £56m in 2010/11. This represents the degree to which the sector is not in a position to provide for a fully sustainable future.”⁸
- 3.6. Changes in the way that funding for full-time undergraduate provision is funded currently poses risks in relation to higher-cost subjects, widening access and the cross-border flows of students. Part-time funding arrangements for 2014/15 and postgraduate taught arrangements are yet to be fully determined. The Higher Education Funding Council for England (HEFCE)’s analysis of the impact of the 2012 reforms in England, however, identified a 40% drop in part-time enrolments which points to the significant risks for policy makers in this area.⁹ The budget for research we expect to be maintained until after the Research Excellence Framework (REF) exercise, but its future beyond that is not certain - a clear cut in the Quality Research (QR) budget would be a first for a UK nation and would involve significant reputational risks for the sector. Maintaining the budgets for part-time and research, however, will have significant consequences for other areas of support including for instance high cost and strategically important subjects, widening access, and Welsh medium provision. HEFCW funding for innovation and engagement is expected to be removed altogether except for residual project funding in 2014/15. In the short-term, it is clear that there is no capacity for absorbing further reductions without damaging provision with its wider consequences for Wales.

4. Question 2. Looking at the indicative budget allocations for 2014-15, do you have any concerns from a strategic, overarching perspective, or about any specific areas?

- 4.1. The Welsh Government set jobs and the economy as their ‘over-riding priorities’ in its Programme for Government. The Welsh Government analysis which informed this objective¹⁰ and the Annual Progress Report 2012 has argued that according to a number of economic indicators there was an urgent need for Wales to take action to secure its long-term prosperity¹¹. In our view, higher education is critical to

⁸ HEFCW Circular [W13/15HE](#), 08 May 2013, para. 8, p.2.

⁹ HEFCE, “Higher Education in England: Impact of the 2012 reforms”, March 2013.

¹⁰ Welsh Government. “Economic Renewal: A New Direction.” 2010.

¹¹ Welsh Government. “Programme for Government, Annual Report, May 2012.” 2012.

sustained economic growth and there is greater potential to drive future economic growth through prioritising investment in higher education:

- 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.¹²
- Long-run economic growth is above all determined by knowledge accumulation and technological progress.¹³
- Interaction between universities and business has been shown to be important for stimulating innovation and economic growth,¹⁴ and university research and innovation helps to create high value industrial clusters.¹⁵
- The Welsh Government has recognised that alternative economic levers at its disposal are comparatively limited.¹⁶
- There are few sectors of the Welsh economy with the capacity or scope to grow and generate export earnings as well as higher education.

4.2. Higher education makes a very important contribution to the economy, and investment (or reductions in investment) in higher education will have significant short-term and longer-term consequences for the wider economy including employment, export earnings and GDP:

- Universities are major suppliers of the skilled workforce in Wales. More than 10,000 students from Welsh universities entered employment in Wales within six months of leaving in 2011/12.¹⁷
- Universities are major employers in their own right with over 16,000 full time members of staff. After taking into account the “knock-on” effects of jobs being created in other industries linked to Welsh universities, it is believed the total employment generated in Wales is just under 39,000 (over 43,000 across the UK).
- With a total turnover of over £1.3bn, universities have an estimated impact of almost £2.6bn on Wales’ economy, with this figure reaching £3.6bn once total off-campus spending by students is taken into account.¹⁸ Based purely on patterns of expenditure, for every £100m that is invested in higher

¹² Universities UK, “Higher Education in Focus: Driving Economic Growth - Higher Education a core strategic asset to the UK.” 2011.

¹³ OECD, “The OECD Innovation Strategy - Getting a head start on tomorrow.” 2010.

¹⁴ Lambert, Richard. “Lambert Review of Business-University Collaboration - Final Report.” 2003.

¹⁵ Higher Education Wales, “Investing in the Upturn.” 2011.

¹⁶ For instance, Welsh Government, Programme for Government Annual Report 2012, p.3 & 6 on influencing primary income and GVA per capita.

¹⁷ Higher Education Statistical Agency (HESA), “Destinations of Leavers from Higher Education 2011/12.” HEIDI Report 2013.

¹⁸ Kelly, McNicoll et al., The Economic Impact of Higher Education in Wales, June 2013, commissioned by HEW.

education £103m is generated to the Welsh economy (a high 'multiplier effect').¹⁹

- Research and innovation at universities in Wales are vital for long-term economic growth and for a strong advanced industrial sector in Wales, as recognised by the Welsh Government's science and innovation agendas.²⁰ Higher education accounts for nearly half of all Research & Development investment in Wales.²¹ Few other countries have matched Wales' ability to deliver more for its level of investment in research and development, based for instance on the percentage of high quality research for its share of Quality Research (QR) funding, citations per unit of funding, or the rate of growth in publication outputs.²² There remain opportunities to increase relatively low levels of competitive Research Council grants, which largely reflect the historical subject mix, through addressing capacity issues.²³ Universities have the potential and ambition to extend Wales's international reputation for excellence and achievement in this area.
- Universities also play an extremely important role in leveraging additional resource into Wales, currently earning over £400m in much-needed export earnings through overseas revenue and international students coming to study in Wales.²⁴ Wales is already one of the most successful countries in the world for the recruitment of overseas students. The UK's market share of international students is second only to the US (9.9%),²⁵ and Wales has a comparatively large share of overseas enrolments in the UK. The numbers of internationally mobile students are projected to rise from 3.7m in 2009 to 7.0m in 2020,²⁶ and universities in Wales collectively have strong ambitions to capitalise on the potential opportunities through further investment in this area with major implications for export earnings for Wales.

5. Question 3. What expectations do you have of the 2014-15 draft budget proposals? How financially prepared is your organisation for the 2014-15 financial year, and how robust is your ability to plan for future years?

¹⁹ Ibid.

²⁰ Welsh Government, "Science for Wales – A strategic agenda", March 2012; and, Welsh Government, "Innovation Wales", July 2013.

²¹ Welsh Government, "R&D expenditure by UK country." StatsWales, March 2012.

²² Williams, R., "Recognising the Quality of Research at Universities in Wales", The Learned Society of Wales, February 2013.

²³ Ibid.

²⁴ Kelly, McNicoll et al., The Economic Impact of Higher Education in Wales, June 2013, commissioned by HEW.

²⁵ Universities UK, "Higher Education in Focus: Driving Economic Growth - Higher Education a core strategic asset to the UK." 2011.

²⁶ Ibid.

5.1. We anticipate that Welsh Government's Budget for next year will take into account the changes in overall budget of £15.1 billion for both 2014/15 and 2015/16, representing a reduction in real terms of around 2%. The exact distribution of any reductions in funding across departmental budgets, however, we would expect to be based on an assessment of core requirements and funding priorities to avoid significant unintended consequences. For 2014/15, the universities have planned on the basis of the following arrangements as have been previously indicated:

- Part-time study. Full new student support regime for part-time students will not be introduced for 2014/15.²⁷ However, eligible students studying at an intensity of over 25% of a full-time course would be able to access a non-means tested loan²⁸ and funding should be available to HEFCW "to continue to fund part-time provision at broadly current levels and in return expect higher education institutions to exercise restraint in the setting of part-time tuition fees".
- Research. Research funding will remain at broadly static levels, at least until after the REF 2014.

5.2. We would expect budget allocations to reflect the positive contribution of higher education to the Welsh Government priorities as discussed above.

5.3. In addition we would expect investment to reflect the new higher education policy agenda. In particular, in making the Higher Education Policy statement on 06 June 2011, the Minister for Education and Skills stated that 'the reconfiguration agenda, which has dominated policy for the last decade, is now largely completed'²⁹ and signalled a new, post-reconfiguration HE policy that "looks forward to how we should build on the existing success of Welsh higher education." In the past additional investment in higher education has been made contingent on progress on reconfiguration³⁰. We would expect investment in higher education to be a high priority in the light of the post-reconfiguration policy for higher education in order to realise the longer-term benefits and savings that have underpinned the transformational agenda.

6. Question 4. What are your views on the Welsh Government's approach to preventative spending and how is this represented in your resource allocation (if appropriate)?

²⁷ Welsh Government Cabinet Statement, 05 March 2013.

²⁸ Welsh Government, Student Finance Wales Information Notice (03/2013), "Part-time Student Support: Fees (Wales) for Academic Year 2014/15", 03 June 2013

²⁹ National Assembly for Wales, Record of Proceedings, 11 June 2013, 15:09 (webpage: [here](#)).

³⁰ Welsh Government, Reaching Higher, 2003, para. 22 & 24.

6.1. Our view is that it is essential to balance immediate spending requirements with longer term investment priorities. Higher education has a significant role in driving economic growth both in the short and long run. We must ensure that resource decisions in the short-term do not store up problems or miss opportunities for the longer-term. In particular, it should be recognised that there is no further capacity to reduce funding without serious consequences for universities' activities. As a result any cut in funding could impact on research, jobs, skills, investment from business and the attractiveness to business to collaborate, with a significant detrimental impact for the wider economy and well-being of Wales.

Higher Education Wales
September 2013