

## Welsh Government draft budget proposals for 2015-16 A Response by Higher Education Wales

### 1. About Higher Education Wales

- 1.1. Higher Education Wales (HEW) represents the interests of universities in Wales and is a National Council of Universities UK. HEW's Governing Council consists of the Vice-Chancellors of all the universities in Wales and the Director of the Open University in Wales.

### 2. Introduction

- 2.1. The following comments are provided in response to consultation of the Finance Committee of the National Assembly for Wales relating to the Draft Budget for 2015/16. 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.
- 2.2. We recognise that the Welsh Government will have challenging decisions to make about where to prioritise its funding. From the outset we should state our view that a robust, resilient and internationally competitive university sector brings widespread benefits to individuals, society and government in Wales. Universities provide the foundation for Wales' long term economic growth: 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.<sup>1</sup> Long-run economic growth is above all determined by knowledge accumulation and technological progress.<sup>2</sup>
- 2.3. Universities also play a critical role in promoting social improvement and equality of opportunity, and in nurturing and safeguarding the unique cultural and linguistic heritage of Wales. Universities in Wales contribute more than half of all investment in research and development in Wales, and help to identify solutions to such diverse and complex issues as access to energy, environmental change and an ageing population and acting as a magnet for investment in Wales. High-quality teaching and learning environments are essential for all students to get the most out of their university experience. For future success, sufficient investment is needed to enable universities to grow the quality of provision, adapt flexibly to Welsh skills

---

<sup>1</sup> Universities UK, Higher Education in Focus: Driving Economic Growth, 2011.

<sup>2</sup> OECD, The OECD Innovation Strategy - Getting a head start on tomorrow, 2010.

requirements and to further improve outreach to and retention of widening access learners.

2.4. In particular,:

- 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 (i.e. around 62% of the 16,200 known to have entered employment across the UK).<sup>3</sup>
- An undergraduate degree increases an individual's chance of employment and increases marginal earnings by 27% on average compared to the possession of two or more A-levels. Higher levels of study bring even greater returns on learning.<sup>4</sup>
- 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, recent research shows that the total employment generated in Wales is just under 39,000 (over 43,000 across the UK).
- 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.<sup>5</sup>
- 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. Based purely on patterns of expenditure, for every £100m that is invested in higher education £103m is generated to the Welsh economy (a high 'multiplier effect').<sup>6</sup>

**3. Question 1. What, in your opinion, has been the impact of the Welsh Government's 2014-15 budget?**

3.1. Changes to the Welsh Government higher education budget have had a significant impact on universities in Wales as income shifted further away from grant-based funding to fee-based income for 2014/15, driven by the full-time fee grant settlement. As the full information which would allow the overall impact of the changes for net income up to 2014/15 to be identified is not yet available, HEW has welcomed the

---

<sup>3</sup> Higher Education Statistical Agency (HESA), Destinations of Leavers from Higher Education 2011/12, HEIDI Report 2013.

<sup>4</sup> BIS Research Paper 45, The Returns to Higher Education Qualifications, June 2011.

<sup>5</sup> Kelly, McNicoll et al., The Economic Impact of Higher Education in Wales, June 2013, commissioned by HEW.

<sup>6</sup> Ibid.

opportunity of working with the Higher Education Funding Council for Wales (HEFCW) over the coming year to develop a model which more clearly identifies the overall impact of the changes from 2012/13. The following paragraphs identify the current position as clearly as we can, and the main issues which relate to the current 2014/15 budget settlement.

3.2. The higher education budget of £362.5m for 2014/15 financial year was included in the Final Budget 2014-15,<sup>7</sup> and was later increased to £362.7m in the First Supplementary budget.<sup>8</sup> This amounted to a reduction of £20m compared to the budget of £382m for 2013/14. Over a five year period the budget for higher education fell from £452m for 2010/11 by £82m, around 20% in cash terms, before fee grant payments to students are taken into account. According to HEFCW's latest circular, £78m was expected to be paid from the HEFCW budget to students at institutions outside Wales and £158m to students at institutions in Wales for the 2014/15 academic year (or £150m if the estimated allowance for maximum fee grant tolerance is taken into account).<sup>9</sup> The resulting funding available to allocate to the sector for 2014/15 academic year was estimated at £174m for 2014/15 compared to £242m for 2013/14. HEFCW indicated that the actual allocations would be an estimated £157m in 2014/15, compared to £224m in 2013/14, i.e. the reductions in the Welsh Government's budget translated as a cut in grant of £67m for 2014/15 compared to the previous year.

3.3. The following table (Table 1) summarises the change in grant allocations including fee grant payments since 2010/11, based on academic years, as reported in the HEFCW grant allocation circulars (using the revised figures reported in the following year where possible). From this it can be seen that there has been a resulting reduction of £238m in the total grant allocations to higher education in Wales between 2010/11 and 2014/15, a reduction of around 60%. Welsh Government direct funding for universities now amounts to around 11%-12% of the sector's income.

---

<sup>7</sup> <http://wales.gov.uk/funding/budget/final-budget-2014-2015/?lang=en>

<sup>8</sup> <http://wales.gov.uk/funding/budget/1st-supplementary-budget-2014-2015/?lang=en>

<sup>9</sup> HEFCW Circular [W14/18HE](#). The figure for fee grant payments for students at institutions outside Wales for 2014/15 reflects the estimated adjustment for the Maximum Fee Grant 5% tolerance of £7.5m.

**Table 1. HEFCW allocations**

<b>HEFCW allocations (£m)</b>	<b>2010/11</b>	<b>2011/12</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>
Teaching grant	284.2	260.2	136.6	96.4	53.5
Research grant	77.1	76.6	76.5	78.8	78.5
Other grant	33.9	47.9	45.7	48.9	25.3
Total grant allocations	395.1	384.7	258.8	224.0	157.3
Fee grant payments to students at institutions in Wales			65.0	99.2	150.0
Fee grant payments to students at institutions outside Wales			34.7	62.9	77.8
Total fee grant payments			99.7	162.0	227.8
Total HEFCW grant allocations + fee grant payments to students at institutions in Wales	395.1	384.7	323.8	323.2	307.3
<b>Total HEFCW allocations</b>	<b>395.1</b>	<b>384.7</b>	<b>358.5</b>	<b>386.1</b>	<b>385.1</b>

3.4. Since 2012, universities in Wales have benefitted from access to the higher maximum fees for full-time undergraduate students. If fee grant payments to students attending higher education in Wales are added to the total grant allocations (representing in effect additional fee income from Welsh and EU students), the combined total is estimated to have fallen from £395m to £307m across the five year period, a reduction of around £88m or 22% compared to the overall grant allocations to higher education in 2010/11. We expect much of this reduction in universities' income to have been offset by corresponding increases in fee income from students coming from outside Wales. However, official data relating to the additional fee income from students from the rest of the UK or overseas is not available for 2014/15 as yet, and caution must be used in relying on estimates (see below). At this stage it also appears, that the impact of the shift to fee-based income has varied significantly at institutional level with significant financial consequences for some universities.

3.5. In 2014/15 the reductions in grant funding available meant that difficult choices had to be made between competing funding priorities. The outcome of consultations with the sector was that the research funding remained static, whereas teaching funding allocations were reduced by £40m. In particular:

- The funding for full-time undergraduate (and PGCE) provision was reduced by over two-thirds from £48m to £16m. The funding for expensive and priority subjects was reduced from £43m to £15m. This has long term implications for the provision of higher cost subjects in a market-led funding model, and is likely to influence future decisions about new courses and course innovation across the sector.
- The full-time undergraduate premiums used to support access and retention, disability and Welsh medium provision were discontinued. The widening access fund of £7m was also removed. Although universities continue to devote considerable resources to support these areas, the lack of grant funding at sector level undoubtedly makes collaborative and sector level action harder.

- Funding for part-time undergraduate provision reduced from £33m to £30m. Although the funding for part-time was largely protected at recent levels, this still amounts to a reduction in funding for part-time. Parity of student support arrangements for part-time and full-time students is still an outstanding issue, despite the welcome introduction of loans in 2014/15. A recent issue which affects part-time providers in particular is that the Welsh Government's Financial Contingency Fund was removed for 2014/15 in respect of higher education in 2014/15 at short notice (but not further education).
- Funding for postgraduate taught provision was approximately halved, from £15m to £7m. The teaching element for full-time provision was removed altogether, but reduced levels of per capita payments and premiums for full-time provision were retained.
- Funding for strategic initiatives was reduced from £40m to £26m, including a reduction of the strategic development fund was reduced from £15m to £9m. Feedback from our members has highlighted difficulties in dealing with these cuts at relatively short notice. For instance, reductions in funding for the Welsh for Adults centres is reported as likely to impact noticeably on the opportunities for people to start at continue Welsh this year.
- The costs of paying sector agencies were transferred to institutions, assumed at £3.5m.
- These add to previous substantial cuts in previous years, in particular to teaching funding and the removal of strategic funding for innovation and engagement.

**4. Question 2. Looking at the indicative budget allocations for 2015-16, do you have any concerns from a strategic, overarching perspective, or about any specific areas?**

4.1. From a strategic perspective 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, we reiterate our view 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.

- 4.2. The indicative allocation for higher education, as published in the Final Budget 2014/15, was £360.7m for the 2015/16 financial year, i.e. a £2m reduction from 2014/15.<sup>10</sup> HEFCW currently assume that, after meeting fee grant commitments, it would have around £140m available for strategic allocation in 2015/16 academic year and possibly less in future years (see HEFCW funding consultation).<sup>11</sup> Compared to the 2013/14 grant allocations that means that a further reduction of about £17m needs to be found for 2015/16. The principles and priorities for allocating this funding are currently under consultation. HEFCW currently propose to allocate research funding by similar methods to those currently used, but would use the new REF 2014 results. Seemingly, however, difficult choices must be made between the current levels of funding for research (£78m), expensive subjects (£15m), part-time (£30m), postgraduate provision (£7m) and the range of strategy and initiative allocations (£26m) including the strategic development (£9m) some of which are subject to existing commitments.
- 4.3. There is continued uncertainty and risk for universities in the light of major funding and regulatory change across the UK, and income estimates need to be kept under close review. We now have figures relating to 2012/13, the first year of the increased fees (up to £9,000) in Wales, and the introduction of fee grant payments. As reported by HEFCW,<sup>12</sup> the total income of the HE sector in Wales fell by £1m to £1,273m in 2012/13 contrary to previous estimates including the projections published by the Wales Audit Office Report on HE Finance. Funding Council grant fell from 31% to 21% of total income, whereas Home and EU fees increased from 23% to 32% of total. From this it would appear that, for the first year at least, the increase in Home and EU fees was insufficient to offset the reductions in funding grant and that much of the deficit was made up from other sources including income from overseas students. As more students become liable for the higher fees, we would expect the proportion of fee income to increase. However, this highlights the need to be cautious about relying on estimates in going forward, and a particular source of concern has been the inaccuracy of previous forecasts for fee grant payments to students attending institutions outside Wales.
- 4.4. While we hope that many of the issues will be addressed through the Diamond Review in due course, the key issues to take into account in reviewing the budgetary requirements for higher education are viewed as follows:
- Changes in the way that funding for full-time undergraduate provision is funded currently poses risks in relation to the key areas previously supported by grant (see 4.2 above). We need to retain sufficient grant funding to

---

<sup>10</sup> [Final Budget 2014-15](#)

<sup>11</sup> [W14/33HE](#)

<sup>12</sup> [Circular W14/27HE](#)

enable strategic support for the key areas covered by the current grant funding model prior to the outcomes of the Diamond review. As we have previously argued, 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. There is a strong case for ensuring that there is an increase in the budget for HEFCW to avoid the consequence of this further reduction of £17m. It is imperative that prior to the outcomes of the Diamond review that we ensure that temporary decisions on funding do not have an adverse long-term impact on the sector.

- The future budget for research, which has so far been maintained for the Research Excellence Framework 2014, must ensure that Wales has every chance of further success in the next review. There are significant dangers in relying on fee income from full-time undergraduates to maintain research in the longer term. We should be clear that a cut in the Quality Research (QR) budget would be a first for a UK nation and would involve significant reputational risks for the sector.
- In respect of part-time provision in particular, we highlight the need to approach changes to the existing grant support with care. The Higher Education Funding Council for England (HEFCE)'s analysis of the impact of the 2012 reforms in England identified a 40% drop in part-time enrolments which points to the significant risks for policy makers in this area.<sup>13</sup> So far this reduction does not appear to have been replicated in Wales, but full data is not yet available and recruitment remains a concern. The retention of part-time grant in Wales may be one of the key factors in ensuring that access to higher education through part-time study caters for the needs of potential students and the employment market. We have previously expressed the view<sup>14</sup> that there needs to be greater parity of support for part-time and full-time students, and we hope that the Diamond Review will enable support for part-time provision to be carefully balanced with support for other areas. In the meantime, it is essential that sufficient investment and grant is maintained to ensure that there are no long-term adverse impacts for part-time provision.
- There is a need to ensure that there is sufficient control of the student support budget, particularly for students choosing to study outside of Wales. In particular, a major issue that was not factored into the indicative budget for 2015/16 is the removal of the student number cap in England. It is unclear whether current Welsh Government or HECW forecasts take into account the

---

<sup>13</sup> HEFCE, "Higher Education in England: Impact of the 2012 reforms", March 2013.

<sup>14</sup> See for instance HEW's response to the HE Funding Inquiry, November 2013 ([here](#)).

potential increase associated with the increase of student numbers in England. HEW's tentative preliminary estimates were that between 1,200 to 1,500 additional students from Wales could attend universities in England by 2015/16 as a result of this, meaning additional costs of up to £7m for fee grant payments, £5m for tuition fee loans, £9m in further support costs and a further loss to the Welsh economy of up to £15m as a result of students personal expenditure in England. We are also very conscious that the budget for fee grant payments to this group of students, based on Welsh Government projections, has previously been significantly under-estimated as recognised by HEFCW.<sup>15</sup> In determining the HE budget for 2015/16 we would ask that sufficient provision or contingency is made to cover the significant risks to universities in Wales arising from this. We would also ask HEFCW and the Welsh Government keep the current maximum fee grant policy under review to ensure that the universities are not disadvantaged by this development – and to ensure they have a full opportunity to retain some of the additional student support funding within Wales.

- It is too early to tell what the impact has been for postgraduate provision in Wales at this stage. However, postgraduate provision which typically involves a higher proportion of specialist courses with smaller numbers of students. It is hoped that the lower levels of debt for undergraduate students may have a positive benefit for postgraduate participation. However, changes to the grant support for providers is a concern for the long-term effect on the provision of future postgraduate opportunities.
- It is essential for Wales that funding arrangements and investment in universities allows them to compete successfully in an international context. In previous submissions to the Finance Committee we have outlined the significant comparative disadvantage in funding between Wales and other UK countries throughout most of the proceeding decade.<sup>16 17</sup> We have also pointed to the comparatively low levels of the investment in higher education in the UK more generally, viewed from an international perspective.<sup>18</sup> There is further evidence of a growing gap in the funding for universities in England

---

<sup>15</sup> See HEFCW W14/18HE paragraph 15. The estimated fee grant payments to students attending institutions outside Wales in last year's grant allocation circular was £50m (W13/09HE, March 2013), this estimate was revised to £63m in the most recent circular (W14/18HE, May 2014).

<sup>16</sup> HEFCW, The Funding Gap 2007/8, undated:

[http://www.hefcw.ac.uk/documents/publications/hefcw\\_reports\\_and\\_statistics/Funding%20gap%202007%2008.pdf](http://www.hefcw.ac.uk/documents/publications/hefcw_reports_and_statistics/Funding%20gap%202007%2008.pdf)

<sup>17</sup> 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.

<sup>18</sup> UUK, "Higher Education in Focus: Driving Economic Growth - Higher Education a core strategic asset to the UK." 2011.

and Wales, as evidenced in the recent funding allocations for England for instance. The total Higher Education Funding Council for England (HEFCE) grant available for higher education institutions in England in the 2014-15 academic year was £3,883 million.<sup>19</sup> When scaled using the Barnett formula (as used to determine consequential funding for Wales), this is equivalent to an allocation of £224m compared to the allocation to Welsh universities of £157m. In addition, universities in England are not subject to restrictions on the average fee levels as they are in Wales, as a result of the redistribution of student numbers exercise in 2012.

- The long term financial sustainability of universities in Wales needs to be kept under review reflecting full economic costs. HEFCW in its most recent analysis of the financial position of the higher education sector in Wales concluded that: “When adjusted to take account of the full economic cost adjustments for the cost of capital and infrastructure, the sector’s position was an aggregate deficit of £85million in 2012/13, compared with a deficit of £64million in 2011/12.”<sup>20</sup>
- There are significant risks that need to be managed arising from the changes to the funding and regulatory arrangements across the UK. We have concerns about the long term viability of the Higher Education budget because the overall financial sustainability of the Welsh HE sector, which is highly dependent on indirect public funding via the student loan system, is predicated on cross border flow from 2011/12 student numbers. Since the removal of the student number cap in England, the risk of even more Welsh Government funds flowing to English institutions, with fewer English students coming to Wales, because English universities will be able to offer places, is high.

**5. Question 3. What expectations do you have of the 2015-16 draft budget proposals? How financially prepared is your organisation for the 2015-16 financial year, and how robust is your ability to plan for future years?**

- 5.1. Please refer to the response to question 2 for the key issues to address in considering HE budget requirements. Universities in Wales have a strong track record of managing difficult changes, and would expect to manage the changes in funding and regulatory environment effectively. However, the levels of investment in universities will have direct consequences for the universities in their capacity to

---

<sup>19</sup> <http://www.hefce.ac.uk/whatwedo/invest/institns/annallocns/>

<sup>20</sup> [Circular W14/27HE](#)

deliver desired policy outcomes and to further the interests of higher education in Wales. There remain significant market, financial and reputational risks for universities in continuing to manage a period of major funding and regulatory change, particularly as universities become increasingly reliant on sources of income other than Welsh Government grant and prepare for potential structural change in the sector. In planning the HE budget for 2015/16 we would welcome working with the Welsh Government to ensure there is sufficient contingency and support available to manage potential difficulties.

**6. Question 4. The Committee are would like to focus on a number of specific areas in the scrutiny of the budget, do you have any specific comments on the areas identified below?**

- Preparation for the Wales Bill**
- Local health board financial arrangements**
- Approach to preventative spending and how is this represented in resource allocation (Preventative spending = spending which focuses on preventing problems and eases future demand on services by intervening early)**
- Impact of the Welsh Government's legislative programme and whether its implementation is sufficiently resourced**
- Scrutiny of Welsh language, equalities and sustainability**

6.1. In its submission to the Children Young People and Education Committee<sup>21</sup> and further letter to the Finance Committee of 31 July 2014, HEW raised queries regarding the costings of the HE (Wales) Bill which proposed major regulatory change for higher education providers in Wales, and the extent to which the Welsh Government had fully budgeted for the changes envisaged. This included:

- Increased administrative costs for HEFCW and the sector associated with new regulatory role. We noted in particular the difference between the costings in the Explanatory Memorandum and HEFCW's own estimates.
- The Explanatory Memorandum of the HE (Wales) Bill also pointed to the need to ensure that a sufficient budget was retained to support part-time specialists, who may not be eligible to become regulated institutions but who would nevertheless be expected to be regulated by HEFCW e.g. in respect of quality assurance.
- The extent to which exceptional costs including legal costs or costs associated with litigation had been taken into account.

---

<sup>21</sup> <http://www.hew.ac.uk/wp/media/HEW-response-to-HE-Wales-Bill-2014-consultation.pdf>

- Provision for the major potential financial risks posed by Bill that could potentially follow from reclassification of universities to central government for purposes of national accounting or arise from any resulting inability to fulfil legal requirements as charities.
- We highlighted the risk that the Bill could inadvertently lead to the Welsh Government/HEFCW set requirements that universities have to fund from other sources and would effectively be an additional cost for universities: there is a risk that in future policy requirements have financial consequences for universities without the corresponding public funding to support it.
- In particular, we have queried the lack of provision relating to a potential increase in the number of providers or courses that HEFCW would be required to fund from the HE budget. If providers other than universities become regulated institutions their courses would automatically qualify for student support and this could have a significant impact on the student support budget. It could also, as current arrangements stand, have a significant financial implication for existing universities since fee grant payments are paid from HEFCW's budget. In determining the budget for 2015/16 and beyond we assume that the Welsh Government would wish to identify and cater for this likelihood to avoid unintended consequences for universities.

6.2. In reviewing future budgetary requirements for HE we suggest that the Welsh Government will need to be particularly mindful of additional costs that may fall on universities as a result of regulatory change and to ensure that appropriate provision or contingency is made in the budget allocations.

**Higher Education Wales**  
**10 September 2014**