

Welsh Government Budget 2016-17

Universities Wales Briefing Note

This is a short briefing note on Universities Wales' current assessment of, and recommendations for, the Welsh government's higher education budget 2016-17.

From the outset we would like to state that we recognise the need for and support Sir Ian Diamond's current Review of Higher Education Funding and Student Finance Arrangements in Wales. The ability of the higher education system to deliver the kind of higher education opportunities that are needed for Wales under the current funding and student finance arrangements is of great concern, and long-term policy changes will be required for future success. The purpose of this briefing paper however, is to outline the short-term requirements for the sector which we believe need immediate consideration in the preparation of the government's 2016-17 budget. These requirements are crucial to sustaining current short-term delivery for Wales until policies to address the longer-term sustainability of the sector can be implemented.

Universities in Wales are national assets that bring widespread benefits to individuals, communities, the nation as a whole and government in Wales. It is crucial that the required short-term commitments are made, so that Universities in Wales continue:

- 1. Delivering for the Welsh economy** - the total combined impact on Wales' Gross Value Added (GVA) of Welsh universities and their students came to nearly £2.4 billion - equivalent to 4.6% of all 2013 Wales GVA¹.
- 2. Providing the skills required** for Wales's skills base to grow - The UK Commission for Employment and Skills² estimates there will be 7.8 million additional high-skilled jobs between 2012-2022, requiring a high concentration of graduates, and employers are reporting a predicted 11.9% rise in graduate vacancies this year, following an increase of 4.3% last year³.
- 3. Creating fair opportunities** - Universities are a catalyst for social mobility and continue to invest heavily in ensuring that students, regardless of background, have access to good quality higher education that has the ability to change lives. Welsh universities continue to have a higher proportion of students from the most under-represented groups (including mature students and students from low participation neighbourhoods and in receipt of Disabled Students' Allowance) compared to the UK as a whole⁴.

¹ Early findings from The Economic Impact of Higher Education in Wales 2015 Report for Universities Wales. To be published September 2015.

² 'Working Futures 2012-2022'. UKCES Evidence Report 83, March 2014

³ The Association of Graduate Recruiters' (AGR) 2015 survey

⁴ http://www.hefcw.ac.uk/about_he_in_wales/statistics/uk_performance_indicators.aspx

Universities Wales priorities for the Welsh Government's Budget 2016-17

The higher education budget in Wales has already been reduced disproportionately between 2010/11 and 2015/16, seeing a reduction of 20% against a fall of only 2% in the Welsh Government's total allocations. Even when including fee grant payments, the higher education allocation has gone from comprising 3.1% of the departmental expenditure limits to 2.6%. This puts the cuts to public funding for universities in Wales as among the largest in Europe, with the current gap in funding between Wales and England at -£64m (when scaled based on a comparison of population size as used in the Barnett formula)⁵. We fully recognise that the Welsh Government will have challenging decisions to make about where to prioritise its funding, and have therefore identified in the following the absolute minimum needed for our universities to be able to provide the benefits above in the short-term. We believe that this is crucial to delivering the government's aim for jobs and growth whilst delivering social justice for the people of Wales.

- **Maintain current levels of grant funding to HEFCW for universities for two years** until policies for longer-term sustainability can be implemented following the Diamond review recommendations. This will provide the short-term stability needed by universities in Wales to continue to deliver the social and economic benefits that are vital to the people of Wales.
- **Ring-fence the Quality Research (QR) budget** to sustain the sector's reputation for research excellence and provide the crucial underpinning needed to win a greater share of competitively awarded research funding that, match funded with government, will achieve the economic, social and cultural goals to benefit Wales.
- **Prevent further cuts to part-time provision** by protecting the current level of funding. This will address the urgent need for greater parity in terms of funding and student support arrangements for part-time students as this makes a vitally important contribution to improving widening access and to strengthening employment skills for people of all ages and backgrounds in Wales.
- **Protect the expensive subjects premium** to ensure Welsh universities are able to offer a comprehensive range of subjects to meet the skills requirements for Wales, widen opportunities to students in Wales and attract students from outside Wales, whilst also providing world-class teaching and a first class student experience.

⁵ Based on our early analysis of data from hefce (www.hefce.ac.uk/funding/govletter/) and hefcw (<http://www.hefce.ac.uk/pubs/year/2015/201505/>)

Why are these funding requirements so critical for Wales?

Maintaining grant funding

Welsh Government's higher education funding, provided to universities through HEFCW grant funding, has reduced from £395 million in 2010/11 to £154 million in 2015/16. This decrease has come about as more money is paid to universities via the fee grant – offered to students from Wales by Welsh government since the change in tuition fee policy in 2012/13. However, universities and crucially students and the wider population of Wales, are being adversely affected by these changes because the money previously provided through **grant funding is not equivalent to income from fee grants**. This is because:

- a) The overall income to universities from fee grants is £10.6m less than funding previously received from grant funding⁶. This has put Welsh universities' ability to act in the public interest and provide positive sector-level interventions at risk. Universities in Wales have made significant efficiency savings, notably higher than English institutions⁷. However, an overall reduction in funding has placed additional pressure on already stretched budgets and the inevitable consequence is that universities are placed in the invidious position of having to make cost reductions that run the risk of impacting on students. **Grant funding needs to be maintained at current levels to prevent any further cuts that will affect students.**

- b) Universities are **less able to distribute their income to help those that need it most**. University income is now largely derived from full-time undergraduate (FTUG) fees. These students quite rightly expect value for money for their tuition fees, however this expectation to spend all tuition fee income on teaching for FTUGs affects a university's ability to use that income to support the full range of students. For example, funding that previously supported the most vulnerable students - access and retention premiums - has been cut from grant funding and is expected to be funded by income from all students' fee income⁸. This is compounded by the government's decision to remove capital funding in 2012. Universities now need to borrow to support capital investment. They therefore also need to be able to use their income to cover the cost of any borrowing and also provide themselves with a cushion against any variation in income and cash-flow fluctuations (e.g. due to the profile of payments from the Student Loans Company). **Grant funding needs to be maintained at current levels to give universities the flexibility of income to deliver public benefits in addition to providing world-class teaching to FTUGs and capital investment to improve students' experience in Wales.**

⁶ Income to universities in Wales from grant funding and fee grant increased cumulatively by 2.6% between 2011/12 and 2013/14. This equates to a real terms – adjusted for inflation - drop of 2.7%.

⁷ Reported efficiency savings by the Welsh sector were higher in 2013/14 than the English sector (£18.6m compared to £13.6m prorated). Based on analysis of data in UUK's Efficiency, effectiveness and value for money Report 2015.

⁸ Access and retention premiums fell from £15m in 2012/13 to £5m by 2015/6. HEFCW Circular W15/09HE, HEFCW's Funding Allocations 2015/16.

- c) The funding shift has seen a redistribution of income, with some institutions now significantly worse off than before 2012 (one saw a decrease in income of 49% and two other in the region of 25% in real terms from 2011/12 to 2012/13) while others have managed to maintain their position. Without the stability of income from grant funding this **polarisation makes it difficult for some individual universities in Wales to manage risk**. With only nine universities in Wales, the reputation of one university can affect the whole sector. Therefore, in order to retain and build the positive reputation Wales' universities have with both business and students, government policies need to be mindful of the needs of the local communities and economies that rely on individual universities. **Sustaining the current levels of grant funding therefore, will maintain an institution's ability to manage their own affairs and continue to deliver the economic and social benefits to Wales** that are demonstrated above.
- d) **The instability of university income due to the funding shift poses a great short-term risk**. Fee grant income is brought into universities through recruitment of full-time undergraduates and this effective shift from public to private income means universities are impacted by changes in student behaviour. Student numbers are volatile, fluctuating every year and heavily influenced by policy changes that are outside a university's control such as the lifting of the student numbers cap in England. While these policies need addressing in the longer-term (which will be covered in the Diamond review), **grant funding needs to be maintained in the short-term so that universities can put in measures to ensure they are able to recruit**. Recruitment depends on universities being able to provide a student experience that is competitive with universities in the rest of the UK and indeed increasingly, Europe. Student recruitment has already been impacted in Wales through the effect of underinvestment on league table performance, according to a recent report that shows one of the main reasons why Welsh universities may not fare well on public facing rankings is that Welsh universities were significantly underfunded compared with those in England and Scotland over the previous decade⁹. It is therefore crucial that in the short-term, **grant funding must be maintained to help universities continue to attract students, and therefore receive the income that will allow them to deliver great benefits to students, communities and the economy in Wales**.

Ring-fence Quality Research (QR) funding

Wales' university research base is a great national asset, vital to the future of Wales through its economic and social impact. In fact Welsh universities have the highest percentage of 'world leading' research in terms of its impact of any part of the UK, with almost half of it considered to be having a transformational effect on society and the economy. These results

⁹ Learned Society of Wales, 2011. The regional analysis of the Complete University League Table from this report is included in the appendix and demonstrates the direct correlation between underfunding and league table performance.

from the 2014 Research Excellence Framework (REF) vividly illustrate the impressive work of universities in Wales in exceeding the performance of other countries in the UK despite lower levels of funding in comparison: Wales' proportion of total UK research funding dropped from 4.3% in 2007/08 to 3.9% in 2012/13 and even recently, despite the latest cuts to higher education funding in England, the 2015/16 funding allocation for research in England is still ring-fenced and, scaled on the basis of relative population size¹⁰, £7m more than Wales.

We support Welsh Government's vision to expand excellent research in Wales' universities through strengthening the quality and quantity of the research base, to achieve economic, social and cultural goals to benefit Wales. Following the 2014 REF, the sector in Wales has maximised efficiency by directing QR funding to support research of the highest quality, which can be expected to produce the greatest returns on investment. Clearly a future higher education sector furnished with increased and comparable research capacity and funding would be able to deliver even more for Wales, however, the **short-term priorities for the sector in the 2016-17 budget are:**

- a) QR funding is a crucial component in the aim shared by universities and government in Wales to win a greater share of competitively awarded research funding, as it underpins universities' ability to compete. Research in Wales is currently funded via a dual support system that operates throughout the UK with QR funding from HEFCW designed specifically to provide support to universities in Wales for research infrastructure, giving them the flexibility to determine the strategic direction of their research. On the other side of the dual support system, grants for specific projects and programmes are provided by the Research Councils, charities, the EU and government departments. Any cuts to QR funding would further hinder Welsh universities' capacity to compete with other universities that are receiving greater investment. It would also create the risk that blue skies research is stifled by a shift to project based research funding due to the time pressures on institutions in constant bidding exercises. **The QR budget must be maintained to provide this crucial support that will enable the research base, and in turn the beneficial impact on Wales, to grow.**
- b) Excellent academic staff are also critical to Wales' success in the REF and future ability to win competitively awarded research funding. Top academics not only bring their expertise to a university but also a vital network and invaluable reputation, both of which are crucial to building a university's research base. The risk of losing these people and the benefits they would take with them has serious consequences on the ability of the sector to perform in the future, demonstrating that short-term decisions about research funding must be made with the longer-term vision in mind. A recent UK Leadership Foundation for Higher Education report showed the main reason why Wales did not secure its standard share of Research Council funding over the past 20 years, was not due to poor performance, but a historical and significant shortfall of

¹⁰ This is in line with the method used to determine Barnett consequentials for Wales

academic researchers working in specific subjects in Wales. It is crucial that **QR funding is ring-fenced to provide this fundamental underpinning to the research base, which in turn will provide confidence for those that work with them and the academics crucial to their future success.**

- c) As outlined above, now that the bulk of university income is derived from full-time undergraduate (FTUG) fees, the expectation to spend all this income on teaching for full-time undergraduates affects an institutions' ability to use that income to support a full range of activities as well as students. Therefore, the capacity for institutions to vire from FTUG fee income to support research is limited, risking their ability to remain competitive. **QR funding needs ring-fencing to give universities the certainty of income to sustain the sector's reputation for research excellence without compromising their ability to provide world-class teaching to FTUGs in Wales.**

Prevent further cuts to part-time provision

Part-time study makes a vitally important contribution to improving widening access and to strengthening employment skills for people of all ages and backgrounds in Wales, and consequently delivering great social and economic benefits. However, delivering part-time higher education, at the level of quality learners should expect, requires financial support from university income **in addition** to grant and fees in many cases. Having already seen cuts to part-time allocations (at £3.8m, the bulk of funding reductions for 2015/16 were seen in part-time UG funding), **it is crucial that further cuts are not made in the 2016-17 budget** in order to address the urgent need for greater parity in terms of funding and student support arrangements for part-time students and prevent the knock-on effects on communities and local economies in Wales.

Prevent further cuts to the expensive subjects premium (ESP)

Despite recent tuition fee rises, the fees do not cover the total cost of delivering some 'higher-cost' subjects (medical/dentistry, laboratory based STEM and conservatoire provision) at most Welsh universities. Clearly this means cross-subsidisation between lower-cost and higher-cost areas of teaching and between teaching and research, is essential for universities to generate a sufficient overall margin to underpin investment in the student experience and infrastructure. However, the shift to income derived from tuition fees means students' expectations limits universities' ability to distribute their income. In 2014/15 the funding for expensive and priority subjects was reduced from £43m to £15m. **Funding for expensive subjects must be preserved if we are to meet the skills requirements of employers in Wales, and give universities the flexibility of income to be able to offer a wide range of subjects.** This is needed to both widen the opportunities for student in Wales and attract students from outside Wales, whilst also providing world-class teaching and a first class student experience.

Universities Wales is also keen to continue the dialogue with the Welsh Government on potential options for a postgraduate loan scheme for Wales. Following the UK Government announcement of a postgraduate loans scheme for taught masters (PGT) in the 2014 Autumn Statement¹¹, further consideration of the consequences of this policy decision for Wales is urgently required. Welsh universities' ability to attract the postgraduates that are critical to providing higher level skills for world-leading businesses and economic growth in Wales is at serious risk if this new policy applies only in England for English students, thereby preventing English domiciled students from taking their loans and bursary provision across the border into Wales' universities.

Wales' Universities are national assets that are bringing great benefits to the Welsh economy and providing fair opportunities and the skills needed to achieve economic, social and cultural goals to benefit Wales. We support the government's vision to see the Welsh language thriving in Wales. Further discussions with government will need to take place around the future funding of Welsh medium provision in Wales to achieve this vision. However, this paper has set out the four critical requirements for the Welsh government's 2016-17 budget, that universities in Wales consider necessary for them to continue delivering these benefits. Maintaining grant funding, ring-fencing quality research funding and preventing cuts to both part-time undergraduate provision and the expensive subject premium are all critical to preventing any negative impacts on the people of Wales until policies to address the longer-term sustainability of the sector can be implemented.

Universities Wales
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¹¹ Postgraduate loans scheme for taught masters of up to £10k from 2016/17 for English domiciled students, and a bursary scheme put in place for £50m (with matched funding £100m) for 2015/16. See <http://researchbriefings.parliament.uk/ResearchBriefing/Summary/SN07049>

Appendix

The regional analysis of the Complete University League Table below confirms the cumulative effects of the funding gap between Wales and other UK regions in terms of facilities spend, academic services and tariff score.

Table 5: Comparative data on HEIs by Nation/ Region from the Complete University League Table (2014)

Nation / Region (number of HEIs included in the study)	Entry standards ^A	Staff student Ratio ^B	Academic services ^C	Facilities Spend ^D
Wales (7)	325	18.3	926	388
Northern Ireland (2)	350	17.3	1062	551
Scotland (14)	403	17.7	1151	410
North East England (5)	387	17.2	1118	537

^A The average UCAS tariff score of new students. The results are then adjusted to take account of the subject mix at the university.
^B A measure of the average staffing level in the university; Calculated using HESA data for 2012–13.
^C The expenditure per student on all academic services using HESA data for 2010–11, 2011–12, and 2012–13.
^D The expenditure per student on staff and student facilities using HESA data for 2010–11, 2011–12, and 2012–13.