

Inquiry into the Funding of Post 16, Further and Higher Education



Submission to the Finance Committee on the Funding of Higher Education in Wales

ABOUT HIGHER EDUCATION WALES (HEW)

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. HEW provides an expert resource on the Welsh Higher Education sector.

INTRODUCTION

1. Higher Education Wales (HEW) welcomes the Finance Committee's inquiry into the funding of Post 16 Education, Further Education and Higher Education. Our submission to the Committee naturally concentrates on the Assembly's investment in universities. We focus on three key points in our submission, which are:
 - The importance of investment in Higher Education (HE) and how historic patterns in public expenditure in Wales have led to a structural level of underinvestment in universities [section A].
 - The potentially counterproductive effect of future reductions in core investment in universities caused, in part, by a shift towards significantly greater funding for specific projects and funding streams - as indicated by the Welsh Assembly Government and its HE Funding Council (HEFCW) [section B].
 - The crucial importance of the UK Government's Independent Review of Funding and Student Finance announced in 2009 and the need for a Joint Ministerial Committee of the four UK HE Ministers to consider the ramifications of the review for the HE sector in Wales [section C].

A) THE BENEFITS OF INVESTMENT IN HE & STRUCTURAL PATTERNS OF PUBLIC EXPENDITURE IN WALES

2. The imperative of investment in HE in Wales is all the more important given the impact of the global recession and the rapid structural changes taking place in the nature of the global economy. The shift to jobs that are based on the exercise of highly skilled graduate labour is occurring at an ever faster pace. China, India and other Asian nations are basing their economic development to a considerable extent on the development of high level skills through university education and a thriving research and innovation base. Wales's problematic economic performance in recent decades is to a considerable degree based on

the fact that we lack the right overall level and mix of skills (especially high level skills) even when compared to most other parts of the UK. Our ability to benefit from an upturn in the economy will depend on the extent to which we can engineer a knowledge based economy founded on the combination of a highly skilled workforce and emerging clusters of research and development in Wales.

3. Levels of public expenditure in Wales compared to those in other parts of the UK vary considerably across the range of the Assembly's public service responsibilities. The Assembly Government spends approximately 16% per head more on health services than England¹ yet invests 15% less on each student undertaking a university education in Wales. Such disparities appear to be a legacy of historic expenditure patterns in Wales going back to the pre-devolution era rather than being based on an objective assessment of the long term benefits of investment in different areas. Higher Education Wales therefore welcomes the Finance Committee's recommendation in November 2009 that the Welsh Assembly Government carefully examine the relative returns to the Welsh economy² from different spending areas when planning its budget for 2011/12 and beyond. The return on investment from universities in Wales is enormous and has been captured well by the Enterprise and Learning Committee's Report in October 2009 on the Economic Contribution of HE in Wales. Universities in Wales represent a fast growing sector of the economy contributing an increasing share of our national economy. For every £1 million invested in HE by the National Assembly in 2005/06 through HEFCW, universities contributed £5.3 million to the Welsh economy. Universities in Wales:
 - have a turnover of £1.1 billion generating an output of over £2 billion to the Welsh economy including direct multiplier effects.
 - gained export earnings for Wales of £170 million, including £65 million from EU/overseas research grants and £104 million in fees and 'knock-on' expenditure from international students.
 - earned £121 million in total research grants for Wales and over £205 million from contracts and other income streams.
4. The structural differences in Assembly expenditure patterns appear to have been compounded by the Assembly Government's Final Budget for 2010-11. This budget contained a real terms cut in expenditure on HE while other Assembly Government spending departments received a significant real terms increase in funding. The overall settlement for HE in Wales during the academic year 2010/11 is further in doubt due to the fact that the third term of academic year is in the Assembly's 2011-12 financial year, for which there are no indicative allocations. It is also noteworthy that the 5% so called 'efficiency gain' expected of

¹ These figures are contained in the Assembly Government commissioned 'Review of Health and Social Care in Wales' that reported in 2003. See section 3.37 (p. 31) of the Review for an analysis of how this disparity in expenditure is not entirely related to higher levels of health need in Wales:
<http://www.wales.nhs.uk/documents/wanless-review-e.pdf>

² The Committee helpfully stated in its report on the Draft Budget in November 2009 (in paras 17 and 70) that it "would like to have seen evidence of the work undertaken by the Government to ensure that the multiplier effects of its different programme spends was maximised". <http://www.assemblywales.org/cr-ld7787-e.pdf>

the HE and FE Sectors in the Assembly Budget is not being demanded of many other public services receiving Assembly funding. Higher Education Wales notes that the Assembly Finance Committee in its report on the Draft Budget in November 2009³ has commented on the apparent lack of a coherent 'rationale' in its policy on 'efficiency gains' across the full range of public services.

5. In this context HEW welcomes the First Minister's formal commitment to increase investment in education by at least 1% more than the general increase in the Barnett block grant for the National Assembly. The university sector looks forward to working with the Assembly Government in the forthcoming budget round to help make a start on 'catching up' (in the First Minister's words⁴) with the rest of the UK on levels of education investment. The First Minister's commitment is particularly important as this is the first time that the Assembly Government has formally acknowledged the existence of structural investment gaps in education and committed itself to work to eliminate these gaps. The Chair of the Assembly Finance Committee, Angela Burns AM, was correct to highlight the importance of investment in universities in her statement on the publication of the Finance Committee's Report on the Draft Assembly Budget⁵. Assembly Members will be aware that the investment gap in Higher Education is almost double the size of the estimated investment gap at the secondary school level⁶. A brief summary of the investment gap between the HE sector in Wales and the sectors in the rest of the UK is presented below:

- The annual university investment gap with England (in terms of total grant-in-aid to universities) reached £66m in 2006/07 (the latest year for which data is available). This has increased from an estimated level of £22m in 2003/04, as recorded in the first HEFCW Funding Gap Report. HEFCW estimates that the investment gap with England will increase further to a level of £69m in 2007/08, based on early financial returns.
- The investment gap between the university sectors of Wales and Scotland was larger still at £203m in 2006/07.
- The *cumulative* level of the investment gap between Wales and England **reached an aggregate level of £250m from 2003/04 to 2006/07.**
- The investment gap per student (according to figures from the HEFCW Report) is running at 15% per student. A university in Wales receives an average of £5,450 a year per full time student whereas a university in England receives £6,287 per student. A university in Scotland receives an average of £8,040 for each full time student it educates per annum.

B) POTENTIAL SHIFTS IN ASSEMBLY INVESTMENT STREAMS TO UNIVERSITIES IN WALES

³ See paras 35-49 of the Finance Committee's Report on the Assembly's Draft Budget.

⁴ See the remarks of the First Minister, Carwyn Jones AM, interviewed on 13 December 2009 at <http://news.bbc.co.uk/1/hi/wales/8410655.stm>

⁵ See <http://www.assemblywales.org/newhome/new-news-third-assembly.htm?act=dis&id=153665&ds=11/2009>

⁶ The estimate of the gap at secondary school level is between £497 per pupil while the investment gap at the HE level was £837 per student in 2006/07. See <http://www.tes.co.uk/article.aspx?storycode=6031877>

6. Higher Education Wales welcomed the publication in November 2009 of the Assembly Government's new strategy and action plan for HE in Wales, *For Our Future*. HEW also recognises the Assembly Government's commitment made in March 2009 to direct an additional £31m of investment to the university sector in Wales over the period 2010/11 - 2015/16. Universities in Wales have welcomed the development of a Matched Funding Scheme in Wales, run by HEFCW, which assists universities in developing income streams from alumni and other benefactors and charitable foundations. We hope that the Assembly Government will soon confirm that specific support for part time study in Wales (so called 'Graham monies') will be renewed beyond the end of this academic year. HEW is working closely with the Assembly Government and HEFCW to ensure that *For Our Future* is a success for Wales.
7. One aspect of Assembly Government policy in recent months that may militate against the success of *For Our Future* is the Assembly Government's announced intention to shift significant further resources away from core investment in universities towards certain specific projects and priorities. In a context where the Assembly Government has announced a real terms reduction in the overall level of investment in universities for 2010-11 such an approach may have counterproductive effects in achieving shared Assembly Government and HE Sector objectives. HEFCW, at the request of the Assembly Government, are currently planning to make a significant shift away from core investment in universities towards investment in certain specific priorities and projects⁷.
8. A significantly proportion of Assembly investment in HE is already directed through a large number of different investment streams via HEFCW. If a shift towards separate project and priority funding streams occurs directly at the expense of core investment in universities there is a risk that it may be more difficult to deliver successfully the specific projects that the HE sector is committed to delivering. This risk is related to the fact the net costs of restructuring a university's operations as a result of real terms cuts in investment are disproportionately high, as noted by the former Chief Executive of the HE Funding Council for England, Professor David Eastwood, in a recent article in *The Guardian*⁸. These costs are set to increase as a result of increased pension costs (due to demographic change) and a significant increase in Employers' National Insurance Contributions from 2011. Such potentially destabilising and unintended consequences can be avoided if any new funding streams are not funded by reductions in core investment but financed from genuinely new investment directed into the HE budget. We would welcome an assurance that this will be the case from the Welsh Assembly Government.

⁷ See the HEFCW Circular on HE Funding issued in September 2009 here:

<http://www.hefcw.ac.uk/documents/publications/circulars/W09%2031HE%20Funding%20Consultation%20Circular.pdf>

⁸ The former Chief Executive of HEFCE, Professor David Eastwood, states this point clearly "[i]n reality, we all know that the costs of restructuring are considerable, and the cash reserves of many institutions are modest. Achieving such a restructuring would deplete those reserves, and may require further borrowing. Meanwhile, legislation makes restructuring the public sector and publicly funded institutions ever more costly. Given the staff-intensive nature of our business, if an institution turning over £200m were to take out 15% of its cost base, it would be lucky to achieve sustainable reductions for less than £25m in restructuring costs." *The Guardian* 29 September 2009: <http://www.guardian.co.uk/education/2009/sep/29/higher-education-spending-cuts>

9. The terminology employed in funding such specific projects or priorities is often that of 'strategic' funding. The use of the term 'strategic' to describe some of these shared HE priorities is not always helpful as there is an implication that other areas of university core operations are somehow not genuinely 'strategic'. There are a number of other priority areas that universities must treat as 'strategic' - such as the maintenance and improvement of the student experience and the development of a university's international operations – that are funded largely through core investment from HEFCW. Given the competitive nature of the universities across the UK and the world, successful performance in the areas of learning and teaching and international activity are a strategic imperative for all universities in Wales. Ensuring that the delivery of such strategic imperatives is all the more challenging when the investment gap contributes to the creation of an (independently assessed) backlog of investment in the learning and teaching infrastructure at Welsh universities of £300m⁹.

C) THE UK GOVERNMENT'S INDEPENDENT REVIEW OF FUNDING AND STUDENT FINANCE IN ENGLAND

10. The UK Government established an Independent Review of Funding and Student Finance in November 2009. This review will consider not only the level of the variable tuition fees for England but also the wider question of overall university investment and student finance in England. The final report will be delivered to the UK Government's Business, Innovation and Skills Secretary in autumn 2010 with an anticipated implementation date for any changes coming in *as early as the academic year 2011/12*. Assembly Members will be aware that the outcome of the review will have an enormous impact on the competitive position of universities in Wales. In the event that variable tuition fees are increased by the UK Government in England there would be no direct increase in the Barnett block grant to the National Assembly. In this scenario universities in Wales would be left with an additional and potentially substantial structural gap in overall levels of investment relative to their competitor universities in England.
11. HEW believes that the Assembly Government, and as appropriate HEFCW, should be participating in the review to the greatest extent possible to ensure that the final report of the review group takes on board fully the potential ramifications for universities in Wales. HEW has called for a formal Joint Ministerial Committee (JMC) comprising the four UK HE Ministers to consider this matter and wider issues relating to 'cross border' elements in the delivery of Higher Education across the UK. We note that the Welsh Affairs Committee has also called for a JMC to be established to consider such issues in its report on Cross Border Services in HE and FE, issued in January 2009.

⁹ As specified in the Arad Consulting Report commissioned by HEFCW entitled 'Future needs for capital grant funding in higher education in Wales' (September 2006).

CONCLUSION

12. Higher Education Wales is continuing to work in partnership with the Assembly Government and HEFCW to ensure that the funding issues raised in this submission are addressed. Communication between the Assembly Government, the HE sector and HEFCW is good and we are continuing to explore together the various challenges faced by all partners involved in Higher Education in Wales. We hope that the Finance Committee's inquiry will assist all parties in this communication process in order that universities can continue to maximise their economic and social contribution to their communities and to the nation as a whole.

We would be happy to assist the Committee in any way deemed helpful.

HIGHER EDUCATION WALES

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