



Cynulliad Cenedlaethol Cymru **The National Assembly for Wales**

Y Pwyllgor Cyllid **The Finance Committee**

Dydd Mercher, 13 Tachwedd 2013
Wednesday, 13 November 2013

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Cofnodir y trafodion yn yr iaith y llefarwyd hwy ynnddi yn y pwyllgor. Yn ogystal, cynhwysir trawsgrifiad o'r cyfieithu ar y pryd.

The proceedings are reported in the language in which they were spoken in the committee. In addition, a transcription of the simultaneous interpretation is included.

Aelodau'r pwyllgor yn bresennol
Committee members in attendance

Peter Black	Democratiaid Rhyddfrydol Cymru Welsh Liberal Democrats
Christine Chapman	Llafur Labour
Jocelyn Davies	Plaid Cymru (Cadeirydd y Pwyllgor) The Party of Wales (Committee Chair)
Paul Davies	Ceidwadwyr Cymreig Welsh Conservatives
Mike Hedges	Llafur Labour
Ann Jones	Llafur Labour
Julie Morgan	Llafur Labour
Simon Thomas	Plaid Cymru The Party of Wales

Eraill yn bresennol
Others in attendance

David Corner	Aelod o Fwrdd Swyddfa Archwilio Cymru Wales Audit Office Board Member
Mike Davies	Cyfarwyddwr Cyllid, Prifysgol Caerdydd Director of Finance, Cardiff University
Ann-Marie Harkin	Cyfarwyddwr Grŵp, Swyddfa Archwilio Cymru Group Director, Wales Audit Office
Rob Humphreys	Cyfarwyddwr, y Brifysgol Agored yng Nghymru Director, The Open University in Wales
Terry Jones	Rheolwr Technegol, Swyddfa Archwilio Cymru Technical Manager, Wales Audit Office
Michelle Matheron	Rheolwr Polisi a Materion Cyhoeddus, y Brifysgol Agored yng Nghymru Policy and Public Affairs Manager, The Open University in Wales
Andrew Parry	Pennaeth yr Adran Cyfathrebu Corfforaethol, Prifysgol Glyndŵr Head of Corporate Communications, Glyndŵr University
Professor Patricia Price	Dirprwy Is-ganghellor, Profiad Myfyrwyr a Safonau Academaidd, Prifysgol Caerdydd Pro Vice-chancellor, Student Experience and Academic Standards, Cardiff University

Professor Michael Scott	Is-ganghellor a Phrif Weithredwr, Prifysgol Glyndŵr Vice-chancellor and Chief Executive, Glyndŵr University
Huw Vaughan Thomas	Archwilydd Cyffredinol Cymru Auditor General for Wales
Kevin Thomas	Archwilydd Cyffredinol Cynorthwyol Cymru Assistant Auditor General, Wales Audit Office
Paul Whiting	Cyfarwyddwr Cyllid, Prifysgol Glyndŵr Director of Finance, Glyndŵr University

Swyddogion Cynulliad Cenedlaethol Cymru yn bresennol
National Assembly for Wales officials in attendance

Richard Bettley	Y Gwasanaeth Ymchwil Research Service
Bethan Davies	Clerc Clerk
Claire Griffiths	Dirprwy Glerc Deputy Clerk
Meriel Singleton	Clerc Clerk
Anne Thomas	Y Gwasanaeth Ymchwil Research Service

Dechreuodd y cyfarfod am 08:59.
The meeting began at 08:59.

Cyflwyniad, Ymddiheuriadau a Dirprwyon
Introduction, Apologies and Substitutions

[1] **Jocelyn Davies:** I welcome everyone to this meeting of the Finance Committee. I remind you to turn off any electronic equipment that you have, because it interferes with the broadcasting and translation. We are not expecting a fire drill, so, if you hear the alarm, it is probably a genuine emergency; please take directions from the ushers. I have received no apologies for this morning. We are expecting Simon Thomas to join us very shortly.

08:59

Adroddiad Blynyddol a Chyfrifon Archwilydd Cyffredinol Cymru 2012-2013:
Tystiolaeth gan Swyddfa Archwilio Cymru
Auditor General for Wales' Annual Report and Accounts 2012-13: Evidence
from the Wales Audit Office

[2] **Jocelyn Davies:** We move to the first substantive item on our agenda, which is the Auditor General for Wales's annual report and accounts for 2012-13. This morning, we are taking evidence from the Wales Audit Office. Perhaps, auditor general, you would like to introduce yourself and your team for the record, and then we will go straight into questions.

[3] **Mr H. Thomas:** I would be grateful if you could raise your voice slightly. We have tested the equipment in this room, but I am straining a bit to hear.

[4] **Jocelyn Davies:** Okay.

[5] **Mr H. Thomas:** On my left is Kevin Thomas, who is assistant auditor general and looks after, basically, the central corporate services. On my right is Ann-Marie Harkin, who is

the director of resources, and assisting her is Terry Jones.

[6] **Jocelyn Davies:** Thank you very much. I will go straight to the first question, then, if that is okay. As public bodies must now disclose their remuneration ratio, will the WAO be able to benchmark its position against other public bodies in future?

[7] **Mr H. Thomas:** Sorry, I did not catch that question.

[8] **Jocelyn Davies:** I am sorry.

[9] **Mr H. Thomas:** The equipment is working, I have to say, but, for some reason, the sound is not coming through that strongly.

[10] **Jocelyn Davies:** I wanted to ask you about the disclosure of remuneration ratio. *[Interruption.]* Is that better?

[11] **Mr H. Thomas:** Yes. Thank you. It was a question about benchmarking.

[12] **Jocelyn Davies:** Yes, it was about benchmarking and the remuneration ratio. As you know, public bodies must now disclose that. I am just wondering whether the WAO will be able to benchmark its position against other public bodies in the future.

[13] **Mr H. Thomas:** Kevin, do you want to answer that?

[14] **Mr K. Thomas:** Yes. We currently benchmark with other organisations. You will see earlier on in our annual report that we have some social data, and in there we comment on how we compare with the other audit bodies in the UK, which is a particularly interesting comparator for us. Certainly, it is something that we look to do on an ongoing basis in terms of comparing how our pay is against that of the rest of the public sector. We also, of course, look at private sector comparisons and how we benchmark against some of the firms, so that we have a comprehensive set of information against which to compare our pay and performance.

[15] **Jocelyn Davies:** Thank you for that. Paul, shall we come to your question?

[16] **Paul Davies:** Thank you, Chair. I note that the total remuneration of non-executive committee members increased by 25% in 2012-13 compared to the previous year. How are these remuneration levels decided, and will further increases actually be seen in 2013-14?

[17] **Mr H. Thomas:** The increase actually reflects an increase in numbers. What we did during this period was prepare for the coming in of the Public Audit (Wales) Act 2013. I therefore set up shadow arrangements, involving new, increased numbers of non-execs dealing with resources, the audit and also remuneration. That was an essential run-in and preparation for the Act. In fact, what it does mean is that, going forward, there is only a marginal difference in the cost of absorbing the new statutory WAO board compared to the cost that we were running. Prior to that, in the comparison year that you are looking at, we have about the half the number of non-execs. So, essentially, it was the preparation period.

[18] **Mike Hedges:** Were the delays in the 2012-13 audit programme due to one-off increases in workload, or could they be repeated this year?

[19] **Mr H. Thomas:** On 2012-13, the growth that we have seen in audit work is actually continuing. I am continuing to get requests to carry out special investigations, and, as you will see when you turn to the estimates shortly, we have made use of the extra funds that were given to us at that stage. We are also continuing to see a demand for us to audit grants, and

that is despite an attempt by us to try to say to the grant scheme managers, 'Do you really need us to do this? Are there not other ways in which you could check what happens in terms of the outcome of grants?' So, we are seeing a growth, but, at the same time, of course, the statutory area has remained pretty static.

[20] **Jocelyn Davies:** Peter is next.

[21] **Peter Black:** On the grants issue, is there room for precautionary advice as to how they set the grants up, to reduce that workload for you?

[22] **Mr H. Thomas:** A couple of years back, we issued some guidance trying to suggest that there ought to be a more proportionate approach to involving the auditors on grants, but that was also to be accompanied by improvements in the way in which the grants were designed, targeted, and so on. In fact, it almost had a perverse effect. Despite the fact that we issued this guidance, we also issued a report on grant management, and drew attention to the problems that had occurred in grant management, and I think that those responsible for grants played safe, and sought our advice. In fact, going forward, I would still like to do more work, because we first need to reduce the number of grants as a mechanism for achieving successful policy implementation in Wales, but we also need a much more proportionate approach to the auditing of grants, and ones that actually recognise that there is a responsibility on those setting up grants to monitor what is being done themselves, and not use my staff. Using us, I am afraid, is an expense. If you monitor yourself, you are more likely to know that the grants have been successfully directed to their outcomes.

[23] **Jocelyn Davies:** I suppose that the evaluation built into the grants programme is something that we ought to see as a norm, rather than auditing later on. I suppose that what you are telling us is that Welsh Government Ministers, if they choose to use grants, should then take the responsibility for monitoring, rather than relying on your services.

[24] **Mr H. Thomas:** Yes. There is also the point that, when we look after grants and certify grants, we have to recover the full cost of that, and so, really, when you are administering a grant scheme, if you look at how much you are distributing, you want to keep the administrative cost, including our costs, down to the minimum.

[25] **Peter Black:** Are you finding, despite this evident caution on the part of the Welsh Government in particular, that there is not any improvement in the way that they are doing this, or are they literally just using you as a safety net and carrying on as before?

[26] **Mr H. Thomas:** We do see positive changes in what is happening in terms of the Welsh Government and its grant centre of excellence. That is actually helping to deliver quite effective work. We have also run courses with the Welsh Government and others in terms of 'these are the things to look out for'. So, I can see an improving scene. I think there is still an inherent caution in the system, and I would just like the system to flex a little bit and take a bit of risk.

[27] **Jocelyn Davies:** It is nice to hear the auditor general saying that he would like to see some risk taking. [*Laughter.*]

[28] **Peter Black:** Moving on to my question, there has been a piloted use of external suppliers of internal audit during 2012-13. Will that lead to increased costs relative to using internal staff in future years?

[29] **Mr H. Thomas:** Currently, we put out about 22% of our work to small bodies. The current contracts come to an end next year, and one of the tasks that the new Wales Audit Office board will need to do is to decide what the right mix is going forward. Up until now,

we had benefitted, of course, because there was an issue of VAT, which we reclaimed, but, as you will see from the later papers—particularly, I think, the supplementary paper—we lose £600,000 in VAT and a lot of that is with the external suppliers that we have brought in. So, I think there will be a need to think very carefully about the marginal gain that now exists in terms of using external suppliers as against our own staff. Clearly, one of the factors that we will need to take into account, if I can refer back a few years, is that, when the number of health bodies was reduced, there was a transitional period when there was a need to audit both the new ones and the old, but, on a more steady basis, there were fewer health bodies to audit, and that meant that we could redeploy staff. If there is going to be a change in local government, then exactly the same thing will happen. My view is that it makes little sense to make staff redundant because of that, when you can redeploy them. That is looking at the balance between your contracted element and your own purchased element.

[30] **Peter Black:** Would you benefit from collaborating with other public bodies to provide that internal audit service?

[31] **Mr H. Thomas:** It is a question of which public bodies we co-operate with. We have a very statutory role in terms of the Welsh public sector, and I cannot really audit organisations that we have been engaged with. Where we do work together is with other audit offices. We do a lot of work together with them, in terms of developing approaches and methodology, and in terms of looking particularly at issues of fraud—we work together with other audit offices on the national fraud initiative, for example, in terms of the work that we are doing here. When it comes to European work, we work with and for the National Audit Office. Therefore, we do share on the public audit scene, but I have a very clear statutory duty regarding the public bodies of Wales, which I need to discharge personally.

[32] **Jocelyn Davies:** Julie Morgan has the next questions.

[33] **Julie Morgan:** I wanted to ask you about the fees that you charge, and the decrease in income. There has been a fall of 9.7% in 2012-13. Why is that?

[34] **Mr H. Thomas:** The decrease in fees?

[35] **Julie Morgan:** Yes.

[36] **Mr H. Thomas:** I am usually asked about the increase in fees. [*Laughter.*] We have tried, basically, to run ourselves more efficiently. This year, we are looking at gains of something of the order of 6% in our chargeability. Therefore, that means that I am using staff to deliver more work, and, if you are doing that, you reduce the level of fees that you can charge to the organisations. Going forward, we have a slight difficulty with a provision in the new legislation, which requires us to charge full fees. You might think that that is right—that you charge the full costs of fees. However, the way in which it has been constructed, in terms of this particular clause, makes for difficulty with the way in which we deliver our audit functions. To illustrate that point, in terms of local government, we do financial audit and performance audit; previously, if we needed to use a bit more financial audit, we would have taken it from the performance side, so that the overall fee to the body is not affected. However, in future, we will need to hold these in very watertight compartments. I think that it is an unintended consequence, but it is something that you will have the opportunity to look at when the board brings its proposals for fees to you. Going forward, we need your agreement on the fees that we are going to be charging.

[37] **Julie Morgan:** Right. So local authorities, for example, are likely to be paying more?

[38] **Mr H. Thomas:** This is straying into the estimate area now. However, essentially, what we are doing is that, for local government, we have built up a reserve; the changes in the

legislation means that I can no longer separately finance local government—it has to be funded through the consolidated fund—and I cannot build up a reserve. However, what I am proposing to do is that the reserve, which amounts to something like £1.2 million or so, would be defrayed over three years, so that local government will not see an increase of fees, and will actually, possibly, see a marginal decrease. The health bodies will see a decrease because we will not be charging VAT to them, so, again, they will be in a more favourable position. However, unfortunately, central Government will see an increase in fees, because of the impact of this particular part of the legislation.

[39] **Julie Morgan:** Thank you. As you say, that is obviously for the future. How did the income compare to your estimates for 2012-13?

[40] **Ms Harkin:** May I just pick up on an earlier point first? You asked about the decrease in income in 2012-13. Comparing 2011-12 with 2012-13 is not a good comparison, because, in 2011-12, we had a significant increase in the amount of unplanned work. Therefore, together with what Huw has said, the two years are not directly comparable anyway.

09:15

[41] In terms of our income for 2012-13, compared with our outturn, we were slightly below what we were budgeting for in 2012-13, but not massively so. There was a slight difference, but it was not significant.

[42] **Jocelyn Davies:** Ann is next.

[43] **Ann Jones:** Under the previous auditor general, the Wales Audit Office showed weaknesses around redundancy and early retirement costs. What changes have you made to how business cases for approving redundancies and early retirements now take place?

[44] **Mr H. Thomas:** The annual report shows the decrease that has taken place in redundancies and retirements. As you can see, we have reduced the number of people leaving. This has reflected quite a large shift in terms of the skill mix that was needed at that time. Going forward, I cannot see the need for any major shift of that kind, although I have flagged up the fact that we will need to look carefully at the consequences for local government reorganisation.

[45] In terms of agreements, what I have introduced during the time that I have been here is one clear set of agreements with trade unions about the way in which we handle redundancies, or rather, the way that we try to avoid them. We have looked carefully at, hopefully, seconding people to other organisations, because that possibly takes care of a short-term peak, but also adds to their skills. Currently, I have three staff on secondment—one member of staff is working with the fire service and one is working with central Government, for example. So, we are using this mechanism as a way of ensuring that I am managing, over a longer term, the peaks that otherwise occur and which lead, I think, to needless redundancies.

[46] **Ann Jones:** What is the typical payback period in terms of payroll savings relative to the redundancy and pension costs?

[47] **Mr Thomas:** Four years is what we operate.

[48] **Ms Harkin:** It is a maximum of four years, but often less.

[49] **Mr Thomas:** Each one of these we run past the Cabinet office as well.

[50] **Simon Thomas:** Gofynnaf fy nghwestiwn yn Gymraeg.

Simon Thomas: I will ask my question in Welsh.

[51] Mae trafodaeth wedi bod ynglŷn â'r cyfrifon, ac rydych chi newydd gyfeirio ati, ynglŷn â threth ar werth, a'r costau cysylltiedig. Rwy'n meddwl bod yr adroddiad yn dweud bod y mater hwnnw wedi ei ddatrys bellach. Fodd bynnag, mae trafodaeth hefyd ynglŷn â materion eraill, megis yswiriant gwladol, treth wrth ennill ac ati. A yw'r mater hwnnw ynghlwm wrth y cwstiwn am gcontractwyr yr oeddech yn ei drafod ynghynt? A oes datblygiad wedi bod ers cyhoeddi'r cyfrifon?

There has been discussion of the accounts, and you just referred to that, regarding VAT and the associated costs. I think that the report says that the issue has now been resolved. However, there is also discussion about other issues, such as national insurance, pay as you earn et cetera. Is that tied into the discussion on contracts that you discussed earlier? Have there been any developments since the publication of the accounts?

[52] **Mr H. Thomas:** Hoffwn ddelio â threth ar werth yn gyntaf. Mae hyn yn rhywbeth rydym wedi bod yn ei drafod gyda'r swyddfa dreth am amser, bron ers cychwyn Swyddfa Archwilio Cymru, ac o'r diwedd, rydym wedi cyrraedd setliad. Mae'n gweithio ar bob un o'r swyddfeydd archwilio—mae'r Alban yn wynebu taliad yn ôl o ryw £4 miliwn ar hyn o bryd, ond mae'n dadlau ynghylch hynny.

Mr H. Thomas: I will deal with VAT first. This is something that we have been discussing with the tax office for some time, almost since the beginning of the Wales Audit Office and we have, at last, reached a settlement. It is working on all of the audit offices—Scotland is facing a payment back of about £4 million at present, although it is disputing that.

[53] O ran y materion eraill, mae problem, oherwydd, fel yr eglurwn yn ein cyfrifon, mae yna staff sydd wedi sefydlu dau le gwaith oherwydd rheolau'r dreth incwm. Yn arbennig, os oes un lle yn y gogledd ac un yn y de, golyga hynny eich bod yn creu costau i chi eich hunan ymhob lle yr ydych chi'n teithio iddo yng Nghymru. Nid wyf yn credu bod hynny'n deg. Felly, rydym yn trafod gyda'r swyddfa dreth i gyrraedd rhyw fath o setliad. Nid ydym wedi cyrraedd y setliad hwnnw eto. Mae hefyd wedi edrych ar y cynllun cyfrinachol rydym yn ei gynnig i staff a hoffai gael rhyw fath o gyngor ynglŷn â *stress*, efallai, neu beth bynnag sydd yn bod; gallant gael y cyngor yn gyfrinachol. Mae swyddfa'r dreth incwm eisiau i ni dalu treth ar hynny. Rwy'n credu bod yn rhaid inni ddilyn yr hyn mae Llywodraeth Cymru wedi ei wneud, sef cytuno i dalu treth incwm. Efallai y bydd yn rhaid inni wneud hynny hefyd.

In terms of the other matters, there is a problem, because, as we explain in our accounts, there are staff who are established in two workplaces because of income tax rules. In particular, if there is one place in the north and one in the south, that means that almost everywhere you travel across Wales, you do so at your own cost. I do not think that that is fair. So, we are discussing with the tax office to reach some sort of settlement. We have not yet reached that settlement. It has also looked at the confidential scheme that we offer to staff who want some sort of advice in relation to stress, perhaps, or any other issues; they can receive confidential advice. The income tax office wants us to pay tax on that service. I think that we will have to follow the lead of the Welsh Government, which is to agree to pay income tax. Perhaps we will have to do that as well.

[54] Fodd bynnag, nid oes setliad ar y materion hyn. Rhaid imi ddweud bod swyddfa'r dreth incwm yn symud yn eithaf araf. Nid wyf yn credu bod datblygiad

However, there is no settlement on these matters yet. I must say, the income tax office moves rather slowly. I do not think that there are any further developments. Are there any

pellach. Oes yna ddatblygiadau, Ann-Marie? developments, Ann-Marie?

[55] **Ms Harkin:** No, we have had initial indications from HMRC over the last couple of days that it will not be pursuing us for historic liability. However, as I say, that is an initial indication, and we have not had a chance to digest that information as yet. With regard to the employee assistance programme that Huw has just mentioned, it remains of the view that there is a tax liability relating to that particular—

[56] **Simon Thomas:** So, it is a taxable benefit, is it?

[57] **Ms Harkin:** According to HMRC, there are elements of this EAP contract, as we call it, that are taxable. The particular problem is around financial advice, and the only areas of financial advice that are considered by HMRC to be tax-exempt are budget management and debt counselling. The financial advice that the particular EAP contract provides goes wider than that, and if one element of the contract falls down, the whole contract, according to HMRC, is taxable. So, I think that we probably have a bit of a problem there.

[58] **Jocelyn Davies:** Good luck with that. [*Laughter.*] Let us know how you get on.

[59] **Simon Thomas:** Some of us have also been there. [*Laughter.*]

[60] **Jocelyn Davies:** Simon, do you have any further questions?

[61] **Simon Thomas:** Rwyf eisiau bod yn glir—cyn belled ag y mae'r cyfrifon hyn yn y cwestiwn, mae hyn yn dangos ac yn nodi diwedd y busnes treth ar werth. Felly, wrth edrych ymlaen, bydd yn rhaid i chi adlewyrchu'r gweddill mewn cyfrifon i ddod, ond—

Simon Thomas: I just want some clarity—as far as these accounts are concerned, this shows and notes the end of the VAT issue. So, in looking forward, you will have to reflect the others in future accounts, but—

[62] **Mr H. Thomas:** Ar dreth ar werth, ie. **Mr H. Thomas:** On VAT, that is right.

[63] **Simon Thomas:** Okay, diolch. **Simon Thomas:** Okay, thank you.

[64] **Jocelyn Davies:** Before we move on to the estimates, I have just one or two more questions. We noticed that you have your own death-in-service insurance policy on top of normal arrangements. Can you explain why that is needed?

[65] **Ms Harkin:** Under the current pension scheme arrangements, for example, the classic pension scheme would give staff in service two years' death-in-service cover, and the decision was taken many years ago to provide the cover for an extra year, so it was for three years instead of two years for people who died in service. The tax position with that is that we had an agreement with HMRC that it was tax-exempt, but we were still continuing, historically, to pay tax on it. Therefore, from our point of view, that tax is refundable, but HMRC is also disputing that with us, so we are having quite a few discussions with it currently.

[66] **Jocelyn Davies:** Okay. You seem to be spending a lot of time with the tax inspector.

[67] There were a number of internal control issues that were identified in 2011-12. Have they been resolved?

[68] **Ms Harkin:** Yes.

[69] **Jocelyn Davies:** They have been resolved. Okay, thank you.

09:22

Craffu ar Amcangyfrif Archwilydd Cyffredinol Cymru ar gyfer 2014-15
Scrutiny of the Auditor General for Wales Estimate 2014-15

[70] **Jocelyn Davies:** We shall move on to the estimate for 2014-15. I understand that you have somebody new joining you, namely David Corner, a board member. Thank you, Mr Corner.

[71] I will go straight to the first question, if that is okay. The Public Accounts Committee review of your estimate for 2013-14 made a recommendation about publishing impact reports. I note that the first report of that is probably going to be next year. Can you give us an outline of the progress that has been made towards producing that?

[72] **Mr K. Thomas:** On the impact report arising from last year's estimate, we have included in this year some of the impact measures in terms of the impact of our good practice exchange, which was one of our key initiatives, and the use of the additional funding for unplanned studies that we bid for last year. There are also a number of other impact measures that we are working on that are very much linked to our 2013-16 corporate strategy, which was launched in April. So, around that time next year, we will be looking to report back on the measures that are set out in there, which talk about not just activity, but also impact and the quality of our work.

[73] **Jocelyn Davies:** Chris, shall we come to your questions?

[74] **Christine Chapman:** As you have been preparing for the impact of the Public Audit (Wales) Act 2013 during the year, are you now able to update the committee on the additional cost to your office, and how does this compare with the cost originally estimated by the Welsh Government in its regulatory impact assessment, which came with the draft Bill?

[75] **Mr H. Thomas:** I think that I am on record as disagreeing with the Welsh Government on its impact assessment of the legislation. If you recall, I had put into my estimates for this current year a figure of something like £250,000. Welsh Government disagreed strongly with that one, and the Public Accounts Committee agreed that I should simply leave that to one side and that we would look at the real cost. In fact, what I can say, going back to an earlier question, is that, because I had increased the number of non-executives in order to prepare for the new legislation, the ongoing cost—that is, if you ignore the transition cost—is probably going to be neutral. So, Welsh Government is right in that. However, there was a transitional cost, which we have been able to sustain and calculate at about £128,000 for this current year and about £20,000 into next year. So, the legislation cost £150,000 to put into practice.

[76] **Christine Chapman:** May I just ask about the fees? Will your revised fees structure under the Act lead to significant fee increases for any public bodies?

[77] **Ms Harkin:** What we have to do next year in order to fund this £600,000 increase in our VAT—in our cost base arising from the VAT issue—is to raise the revenue to pay for that cost increase. As you know, for this year, what we are actually doing—or, what you will see in a supplementary estimate—is that we are using some of our reserves to fund that, and we are asking for a supplementary estimate as well. When we get into next year, 2014-15, however, we will have to raise that revenue. That means that we will need to increase—and I

must emphasise this—our audit fee income by £600,000. As Huw says, there are problems here in terms of working through the legislation, so that does not mean that this is the full cost of a function and no more. That would have potential implications for what happens with individual audited bodies. So, I would not want to say at this stage that it is a 3.8% increase in any particular sector, because we do not know that. What we do know at this point in time is that our audit fee revenue needs to increase by 3.8% overall.

[78] **Julie Morgan:** In view of the reductions in the block grant, are you setting, as part of your long-term planning, the aim of having a certain percentage of the block grant as your income?

[79] **Ms Harkin:** What we are doing, as you rightly said, is that we are holding the block grant steady for this year, apart from these legislative changes. What we are aiming to do, and are currently in the process of doing, is to look forward three to five years with a view to reducing, and continuing to reduce, our cost base. As part of that, we would be looking to reduce our call on the public purse.

[80] **Mr Corner:** One of the things that the board is keen on is for the Wales Audit Office to fundamentally review its operating model. It is going to do that early next year. If you look at the estimate at exhibit 1, you will see that the Wales Audit Office has a good record of introducing efficiencies and reducing its costs, and it has done that year on year, but there is a limit to the extent to which you can each year reduce and produce cash efficiencies just by top-slicing your budget. At some stage, you need to review more fundamentally your ways of working, et cetera. That is one of the things that the board will be very interested in seeing, namely the outcome of that review.

[81] **Jocelyn Davies:** Mike, did you want to come in on this point?

[82] **Mike Hedges:** Yes. Do you think that the auditor general's estimate should be treated more favourably than the organisations that you are auditing?

[83] **Mr Corner:** Absolutely not. [*Laughter.*] Once you strip out the changes due to differences in funding flows and legislative changes, what this estimate actually requests is a flat-line resource. It is the same as last year's request, with no uplift for inflation. So, in making this request, the board acknowledges the cuts that other public bodies in Wales are having to make and the pain that they are facing. We do not think that we should be any different. So, we are looking to ensure an austerity focus within the Wales Audit Office.

9:30

[84] **Mike Hedges:** I was not asking about this year so much; the question was there to ask about future years.

[85] **Jocelyn Davies:** You do not need to answer that. Simon, do you want to come in on this point?

[86] **Simon Thomas:** Yes. I would like to reflect on what you have just said and on your earlier response on income from fees. We have just looked at your accounts for last year, in which I believe that income reduced slightly, and you are now looking to increase income, so the gap is bigger than you are saying it is, in a sense. You are increasing it from a slightly reduced base anyway. So, is the board in particular looking at the balance between the fees and the running of the organisation? How can you square this with the unintended consequences of the legislation that was mentioned earlier? Is that something that has to be sacrosanct, therefore, and puts more pressure on the rest of the system?

[87] **Mr Corner:** It does in that, certainly from my experience at the National Audit Office, the Wales Audit Office is more reliant on fees than certainly the National Audit Office is. Huw, can you pick up that point?

[88] **Mr H. Thomas:** The fact is that we have to operate a mixed economy in terms of the consolidated fund and the fees, whereas the NAO tends to look primarily to the consolidated fund for its funding. The position is that, as you can see, we have really tried to drive down the fees over a period. The only reason that we have to revisit that level is because we have had to absorb the VAT change. I talked earlier about the fact that there is some offsetting that we do—

[89] **Simon Thomas:** You are smoothing it, in a sense.

[90] **Mr H. Thomas:** Yes. However, I would also like to point out that we absorb the cost of the legislation and the other changes in terms of extra work that comes in the course of the year, and I am delivering 6% more audit work for the same money. So, it is not that we are sitting back and putting the fees up; we are reluctant to do it. I still remember having to argue with the Wales Audit Office and its predecessors against fee increases. I believe that it is right, going ahead, that we now have a new lock in this procedure. It is not just a matter of my consulting and then issuing a fee; the board will consult and will give you, as the Finance Committee, its proposals. So, there will be far greater scrutiny as we go forward and, hopefully, people will then understand the basis on which the fees are calculated. However, we do not take lightly the idea of increasing fees. I would far prefer to have simply held them level, but with the change to VAT, we are forced into that position.

[91] **Jocelyn Davies:** Simon, your point has been covered, so I will move on to Ann.

[92] **Ann Jones:** When considering potential value for money studies, how do you consider and balance their possible financial impact when making a final decision on which studies will be prioritised?

[93] **Mr H. Thomas:** It is one of those factors that I take into account in the choice. Every year, I do a consultation in terms of the value for money study. In future years, I will have to consult the board as part of that process. When I choose the studies, I look at various factors. First, I look at whether I am covering the broad range of the Welsh public sector and at whether there are areas that have perhaps been overdone and others that have not had sufficient spotlight shone on them. Secondly, I look at the criticality of particular areas. This is why, for example, in just over a week's time, we will publish work on higher education funding, as many of you know. We decided that we needed to do that because of the criticality of the sums involved. Equally, I take account of the correspondence that I get and determine that, perhaps, some of these areas may not be critical, but they seem to be causing sufficient concern for us to look at them. Lastly, as the agreement was reached last year, I hope that we now have an extra fund that will enable us to respond in short order to things that the PAC identifies. Some of those are listed.

[94] Normally, I will try to hold to the value-for-money studies as announced, but sometimes something comes along that causes us to knock them on for a year. For example, I am looking now at the regeneration investment fund, which caused me to knock on a value for money study from one year to the next. However, this is part of the discussion that I have with the PAC going forward in terms of agreeing the areas.

[95] **Jocelyn Davies:** There has been a bit of a focus on health in recent months, because it is such a huge part of the Welsh Government's budget, and you see the impact of your report paying off in terms of being able to save money.

[96] **Mr H. Thomas:** First of all, health was a major part of expenditure in Wales. Secondly, it was an area of political concern, in terms of the balance of expenditure. It was a matter of public concern, in terms of criticisms that had taken place, and we needed to have some kind of benchmark within Wales, compared with England, in terms of comparisons.

[97] **Jocelyn Davies:** Simon, did you want to come in on this point?

[98] **Simon Thomas:** Wrth edrych ymlaen, rydym yn newid y drefn ar gyfer cyllido byrddau iechyd ac yn caniatáu iddynt gyllidebu dros dair blynedd, ac ati. A gawsoch gyfle i ystyried hynny fel ffactor yn y rhagolygon hyn, ynteu a ydych yn hapus i ddelio â hynny o fewn yr amlen, fel petai?

Simon Thomas: In looking forward, we are changing the way of funding health boards and allowing them to budget over three years, and so on. Did you have an opportunity to factor that into these estimates, or is that something that you are happy to deal with within the envelope, as it were?

[99] **Mr H. Thomas:** Nid yw'n effeithio ar bethau sydd yn y fan hon. Mae hynny yn ein cynllun gwaith ar hyn o bryd, felly nid oes newid.

Mr H. Thomas: It does not affect things here. It comes within our current work programme, so there is no change.

[100] **Jocelyn Davies:** Is it possible in the estimate to show the different resources allocated to different activities, such as value for money studies and special interest reports? Is it possible for us to see the costs of carrying out each of those?

[101] **Ms Harkin:** We could do that if the committee felt that that would be helpful.

[102] **Jocelyn Davies:** Peter, shall we come to your question?

[103] **Peter Black:** Do you incorporate the programme for government in your strategic planning, and do you consider other Welsh Government policy objectives? For example, we have been looking in particular at preventative spending as a key Welsh Government policy. Have you been taking that into account?

[104] **Mr H. Thomas:** The short answer is, 'Yes, we're doing it'. It is one of the factors that I take into account in doing the choice of studies.

[105] **Peter Black:** Do you consider that, historically, there has been sufficient opportunity for other National Assembly committees, other than the Public Accounts Committee, to influence your programme of studies?

[106] **Mr H. Thomas:** One of the encouraging features of the last year has been the number of committees that we have attended and given evidence to. There is scope for my serving other inquiries as well as those of PAC. I suppose that the difference is that the PAC and I plan our work more closely, whereas sometimes decisions by other committees come along and we perhaps cannot plan for it. However, where we can, we try to tailor the reports that we produce to meet the requirements of other committees, and I am more than happy to continue that practice.

[107] **Peter Black:** Just as a matter of personal interest, do you ever look at regulatory impact assessments deriving from legislation, apart from the one affecting your own body? *[Laughter.]*

[108] **Jocelyn Davies:** Auditor general, the more people you consult about your forward work programme, the longer your list will become of things that are interesting to look at. So, I would be careful about how many people you include on your consultation list. Mike, is

your question on this point?

[109] **Mike Hedges:** First of all, can I agree with you, Chair, on that?

[110] **Jocelyn Davies:** You can.

[111] **Mike Hedges:** Secondly, do you think that more of your reports should be going to subject committees, rather than being dealt with solely by the Public Accounts Committee, especially when you go into great detail about issues such as health, which falls within the remit of the Health and Social Care Committee?

[112] **Jocelyn Davies:** You will know that Mr Hedges is also a member of the Public Accounts Committee, so I am not sure which hat he is wearing in asking that question. *[Laughter.]*

[113] **Mr H. Thomas:** I was going to answer that Mike has a hand in making that decision, because the recommendations that we put to PAC are threefold. We ask: do you just accept the report that we have produced and ask for written comments? Do you want to accept the report and have oral evidence? Or do you want to accept the report and refer it to another committee? I think that that choice needs to be there, otherwise there is a danger that the reports that I produce will become a bit out of date by the time that they are debated.

[114] **Jocelyn Davies:** So, you are quite relaxed in terms of other committees calling you to give evidence to them, or using your reports in the course of their normal business.

[115] **Mr H. Thomas:** Perfectly.

[116] **Jocelyn Davies:** Yes, okay. Paul, shall we come to your question?

[117] **Paul Davies:** Thank you, Chair. I just want to carry on with the theme of value for money. Do you think that more work should be outsourced on a rotation basis to private sector firms to achieve efficiency savings?

[118] **Mr H. Thomas:** May I take this on two levels? First of all, in terms of the value for money studies that I do, I do outsource some parts of that. It does not make sense for me to have specialists in every area on my payroll—I need to bring them in. We are doing the report on the Higher Education Funding Council for Wales with major support from PricewaterhouseCoopers, because of its insight into the institutions of higher education. I think that the report—when you see it—actually benefits from that. Where we can, obviously, we do it ourselves. Where we need expertise, we will bring that in, even if it is expertise from outside Wales. For a couple of the studies in which we are currently engaged, as in the review of the Cardiff Airport purchase, we need to look to expertise beyond Wales. All of that represents decisions in terms of value for money.

[119] In terms of our own operations on a day-to-day basis, yes, we do test value for money. A couple of years back, the Public Accounts Committee questioned our decision to introduce a new payroll IT system—I think that Mike particularly questioned it at the time. The point that you made at the time, Mike, was that we should share it with another Welsh public sector organisation. In fact, we have outsourced that, rather than doing it ourselves. If it helps to reduce the cost, it produces economy. So, we do reflect on how we are doing things, and if we can achieve value for money in areas, we will do so.

[120] **Paul Davies:** Are existing outsourcing arrangements more efficient than in-house work?

[121] **Mr K. Thomas:** Sorry; could you repeat the question?

[122] **Paul Davies:** Are existing outsourcing arrangements more efficient than in-house work that you do?

[123] **Mr H. Thomas:** It is a question of having to make a judgment call on the efficiency of each. You cannot start by saying that outsourcing is automatically efficient; you have to look at it. Particularly when I am trying to manage within a tighter budget envelope, I must look at and decide where is the most sensible way to get things.

[124] **Paul Davies:** Do you set regular efficiency targets?

[125] **Mr H. Thomas:** Yes, in the sense that the budgets that are allocated within the organisation are very clearly laid down—budget holders have to hold to them. We expect budget holders to achieve certain levels of efficiency each year, and that includes the administration of individual studies.

[126] **Mr Corner:** The estimate makes clear that, for this year, all budget holders will have to make extra efficiencies of about 2.9%.

[127] **Paul Davies:** You mentioned earlier that you could work with some other public bodies or audit bodies. Are there collaboration opportunities with some of these other bodies that could lead to savings?

[128] **Mr Jones:** The auditor general mentioned that we do work very closely with them—we work with them in technical areas and we share knowledge. Historically, we have worked very closely with the Audit Commission on the national fraud initiative and on benefit audits. We have said in previous estimates that the demise of the Audit Commission is problematic for us, because we now need to look at different ways of doing things that we have historically taken from it, given its size. There are many ways in which we already work with the other audit agencies.

[129] **Mr H. Thomas:** Over the last two days there has been a meeting of the auditors general from across the UK and the Republic. Essentially, one of the areas where we decided that we needed to do a lot more joint work was about some of the key public audit functions where we felt that we could share expertise, particularly when it comes to developing methodology and guidance. So, as Terry said, we have the technical support and we would like to strengthen that because we are conscious of the fact that we can learn from each other; it is efficient to do so and it really saves us from reinventing the wheel.

09:45

[130] **Mike Hedges:** We now have the new board, so how will the impact and performance of the new board be measured, and how will this be reported to the Assembly?

[131] **Mr Corner:** Well, it is obviously for the board, but I think we would want to put in quite robust processes to ensure that we are working well as a team and we will want to see the new leadership and the additional focus that we are bringing to good governance reflected. We will come back and report to the committee and the committee will, I hope, see that impact reflected.

[132] **Mike Hedges:** I might be asking this question to you, Chair—

[133] **Jocelyn Davies:** You are not asking me any questions. [*Laughter.*]

[134] **Mike Hedges:** Will that come back to the committee as part of the annual report next year?

[135] **Jocelyn Davies:** Well, we have had this off them. Can you explain that?

[136] **Mr H. Thomas:** I will just remind you that, under the Act, you also get from us an interim report. You will get from us, by the end of March, our plan for the year, and we will give a progress report in the course of a year. So, you will have the opportunity not just on this occasion next year.

[137] **Simon Thomas:** That should be enough for Mike. [*Laughter.*]

[138] **Mike Hedges:** Are you sure? [*Laughter.*]

[139] **Jocelyn Davies:** Mr Corner, can you explain how the board ensures that the operational aspects of the Wales Audit Office will achieve value for money?

[140] **Mr Corner:** Well, it is through our overall oversight and challenge. In particular, if we could talk a little bit about the role of the board in terms of this estimate, we had an induction day where we looked at the office's financial framework as a whole and the estimate that is presented today. Our role is to provide healthy and robust challenge, which we did, and I think that we probed some of the areas that the committee has probed today—the issues of the fees to be charged to audited bodies and the efficiencies covered in the narrative to the estimate. What we brought to that process was perhaps an additional focus on the external stakeholders, how they would see this estimate and what their interest in it would be. So, it is through that kind of challenge and probing that we intend to improve value for money and also, in terms of our monitoring role, ensure that the Wales Audit Office has the performance indicators and the management information that we need in order to measure progress as we go along.

[141] **Jocelyn Davies:** How do you influence the forward work programme of the auditor general?

[142] **Mr Corner:** In terms of decisions about individual studies and the programme of work, we do not seek to influence that. The Act is clear.

[143] **Mr H. Thomas:** Basically, the board will be one of my consultees going forward.

[144] **Jocelyn Davies:** But the decision finally is yours.

[145] **Mr H. Thomas:** The decision, under the Act, is indeed mine. It is part of the auditor general's powers.

[146] **Peter Black:** What formal evaluation process have you put in place for the board to measure its own performance?

[147] **Mr Corner:** We have not considered that yet. The board was only appointed less than a month ago. We have had our first board meeting, but I am sure that will be one of the things that the board will want to discuss to ensure that there is a robust process in place.

[148] **Peter Black:** Does the board have time to set in place strategic objectives for itself that it can measure its performance against?

[149] **Mr Corner:** Again, I am sure that that is something that the board will want to do.

[150] **Peter Black:** Okay, thank you.

[151] **Jocelyn Davies:** The WAO has a corporate strategy for 2013 to 2016. Does the strategic planning cover a longer period than that?

[152] **Mr H. Thomas:** Last year, we published a three-year strategic plan. Going forward, because of the requirements that we have in terms of reporting to the Assembly at various levels, we will be adopting a rolling three-year strategic plan, and the annual plan that you will see each year will be the first year of that rolling programme. Clearly, in setting a three-year rolling plan, one thing that the board will need to do is to think through what kind of WAO it wants to see over a longer period than three years. However, the board, having set a day on which we are going to be discussing that, has not actually proceeded further. Of course, I need to remind you that the board is not complete as yet—it is not until 1 April that we are able to bring on two elected employee members and my nominated employee member. It does have the curious effect that my absence renders the board inquorate between now and then, so I will hopefully continue—it would help. [*Laughter.*]

[153] **Jocelyn Davies:** You mentioned your supplementary estimate earlier on. Obviously, we are not discussing that today, but we do have a number of questions, and we will send those to you in writing, and will try to deal with that in correspondence, if that is okay with you.

[154] **Mr H. Thomas:** Okay, fine.

[155] **Jocelyn Davies:** Are all Members happy with that? I see that you are. Thank you very much for attending this morning.

[156] **Mr H. Thomas:** Thank you.

[157] **Jocelyn Davies:** I think that we will take a break now, and we will come back at 10.00 a.m., when we have our evidence session on higher education funding.

*Gohiriwyd y cyfarfod rhwng 09:51 a 10:00.
The meeting adjourned between 09:51 and 10:00.*

**Ymchwiliad i Gyllido Addysg Uwch: Tystiolaeth gan Brifysgol Caerdydd a
Phrifysgol Glyndŵr
Inquiry into Higher Education Funding: Evidence from Cardiff University and
Glyndŵr University**

*Nid oes recordiad ar gael o'r cyfarfod rhwng 10:00 a 10:01:29.
No recording is available of the meeting between 10:00 and 10:01:29.*

[158] **Professor Scott:**—because there is a cultural challenge there in relation to fees, and although the Welsh Government is paying the top-up for the fee, there is still an issue in relation to the perceptions of students, particularly from non-participating neighbourhoods, about the cost of going to university and what that means, and about debt and what that means, in terms of paying back and so on.

[159] So, there is an issue in relation to that, and then there are specific issues in relation to our university, because we decided, within the context of our social mobility philosophy and mission, that to set the fee at the highest rate would be detrimental, in the sense that we believe that, after this Government term, it is probably unlikely that the fee can be subsidised to the extent that it is now and, therefore, you would set a precedent by setting it too high for

the widening participation students and could not bring it down. In consultation with the students in particular, we set a low fee. However, that also resulted in our having a penalty from the funding council, because the cut for the funding council was the same across the board. So, I think that it was an unintended consequence, but the situation was that, by setting a low fee because of our widening participation philosophy and mission—and we have 40% to 42%, which is the highest percentage of widening participation students at a university in Wales—we got penalised. I hope that that can get rectified as we go along in the future, but that has hit us hard.

[160] **Jocelyn Davies:** Patricia, did you want to add something to that? You do not need to operate the mike.

[161] **Professor Price:** One of the things that I think may also be an unintended consequence is because of the perception around the debt scenario. We are actually quite concerned about the ability of those students who come from a widening access and widening participation route to maintain into postgraduate areas where there will be, I think, a perception that, 'We must go back out now, get a job and start earning'. We might be cutting off the advantage that we have already given by encouraging that group of individuals to come into higher education, by then not being able to go on further and create the environment where economic growth and stability is something that that group will contribute to, we hope, because there will be this fear that, 'I have probably already stretched myself and maybe cannot do it anymore'. So, we have been trying to find ways in which we can have means-tested bursaries or things through the fee plan to support that group, but the entrance of this particular group from 2015 on, when we have the three-year cycle, is something that we are concerned about as a potential non-intended consequence of that.

[162] **Jocelyn Davies:** Simon, did you want to come in on this point?

[163] **Simon Thomas:** If I understood Professor Scott's point correctly, I think that he suggested very strongly that the present tuition fee regime could not be sustained under a future Government. I just wanted to have that clarified and also ask if Cardiff agreed with that.

[164] **Professor Scott:** Well, that is our opinion; that it probably cannot within the present economic situation and given what we know about budgets.

[165] **Simon Thomas:** What about Cardiff?

[166] **Professor Price:** We would probably confirm that, inasmuch as there may be different models that we could look at. So, it may not be absolutely one or absolutely the other. There might be slightly different ways that we could use that funding to be able to ensure that the widening access and participation agenda can be met and that it can be sustained through into postgraduate work.

[167] **Jocelyn Davies:** Do you agree with HEFCW's financial modelling, that the total income for the whole of the sector will increase as a result of the new funding regime?

[168] **Mr Whiting:** If you look at the sector as a whole, that is probably true, but I think that there are winners and losers within the sector. As Professor Scott has already alluded to, because we set our tuition fee initially quite low, we did not fare so well. We have had a policy of gently increases over the intervening period. So, in one sense, we are playing catch-up, but we are very conscious of the market that we are particularly attracting.

[169] **Jocelyn Davies:** Mr Davies, did you want to comment on this?

[170] **Mr Davies:** Yes, inasmuch as the removal of teaching grant from the funding council and moving to the student fee probably has benefited—or, when the full three-year cycle is completed, will benefit—Cardiff University, the strain on the funding council's remaining grant has been such that we have seen the widening access and innovation and engagement moneys halved in this year, and they will disappear next year. Also, there is a warning that there is a severe danger that we may actually lose some part of our QR—the research funding that we get from the funding council—as well, simply because it has a finite pot and therefore has to meet other demands from it. That would be catastrophic for Cardiff University.

[171] **Jocelyn Davies:** I think that we have some questions coming a bit later on about research.

[172] Has the Government's policy for reconfiguration and mergers, to create larger institutions, resulted in stronger and more competitive universities as intended?

[173] **Professor Scott:** Well, it has resulted in the larger universities. Whether it has resulted in universities that are more competitive, we have to wait to see, really.

[174] **Jocelyn Davies:** I see. It is too early to tell.

[175] **Professor Scott:** It is far too early to say on that. However, studies have been done at Coventry University that demonstrate that the smaller university has a significant value, in terms of niche research and in terms of the pastoral care that can be demonstrated to certain types of student. We know that, from the Westminster Government, over the last year, quite a number of small universities have been founded. So, a mixed economy of large and small is good.

[176] **Jocelyn Davies:** All right. Chris, shall we go on to your questions?

[177] **Christine Chapman:** Obviously, you have mentioned some of the financial challenges, and we are all pretty much aware of them. Do any of you see any financial opportunities ahead, in view of the changes in the situation?

[178] **Professor Price:** I think that there are certainly opportunities in the international student market, and there is probably still some more that we can do there. However, I think that we also need to bear in mind that international students will only come if they feel that they are getting good value for money and that they are going to get excellent research and education while they are here. Indeed, the amount of support that international students require in terms of adjustment and living while they are here means that we have to make sure that the support mechanisms are in place as well. There is still work that we could do there, but we have to be quite strategic about how we do that.

[179] **Professor Scott:** I think that the international dimension is having a positive effect, in the sense that it is forcing Wales to look outwards and, hopefully, it is also forcing us to try to find inward investment. I hope that, within the course of the current year, we will be able to make some announcements related to inward investment from international partners in Glyndŵr.

[180] **Christine Chapman:** Okay. How are individual institutions preparing to deal with the financial challenges?

[181] **Professor Scott:** Paul, do you want to respond to that? *[Laughter.]*

[182] **Jocelyn Davies:** Mr Davies, I am going to pick on you; you kick us off while Mr Whiting thinks of something to say.

[183] **Mr Davies:** One of the things that the new vice-chancellor has demanded of the university is to create some headroom so that we can invest in the university, both in terms of capital and infrastructure. To do that, there are two simple mechanisms: one is to increase income, and overseas income is a key component of that, but there are other items; and to stabilise our costs and, in some cases, reduce them. So, for example, Cardiff introduced a voluntary severance scheme during the last year to take some costs out of the system while still demanding that income increases. That is, productivity has to increase to do that. That is how we are reacting to tightening purse strings.

[184] **Jocelyn Davies:** Mr Whiting, do you have anything to add?

[185] **Mr Whiting:** Mine would be a similar answer, really, but I would just like to add that it is an ongoing challenge. What we are doing at Glyndŵr is a wholesale review of both the academic areas and the operational areas. We have a commissioning process that looks at key performance indicators for each academic area that give a holistic approach and a transparent approach with regard to which areas are performing well and which are performing less well. That takes into account the full range of academic endeavour, including teaching and research activities.

[186] **Jocelyn Davies:** Mr Davies, with regard to your voluntary severance scheme, how many staff have decided to take advantage of that?

[187] **Mr Davies:** Just over 200. It was a voluntary scheme.

[188] **Christine Chapman:** I would like to ask for your views on the increasing provision offered by overseas or private providers of higher education. Do you see that as a threat to your institutions at all?

[189] **Professor Price:** We are slightly concerned that there may be different regulation requirements that might mean that there will be a different competitive edge. Certainly, we would hope that anything that comes into the market would be a very robust and high-quality offering, otherwise we would be on a slightly unlevel playing field, if you like, in terms of going forward. So, obviously, you can see that any market will want to diversify as much as possible, but, for us, excellence and ensuring that it is a high-quality and robust experience for students is important to ensure that we can maintain it in the long term.

[190] **Mr Whiting:** I would like to add to that that the issue for private providers coming in is that it is very easy for them to pick off niche, low-cost subjects.

[191] **Professor Price:** That is having an effect already.

[192] **Mr Whiting:** Yes. The difficulty is competing with that, because they are not offering a full range that covers the breadth and depth of university course provision.

[193] **Professor Price:** Certainly, in relation to science, technology, engineering and mathematics, the high-cost subjects like the clinical subjects and conservatoire, all of those are in a different ball game completely to the sort of areas that the private providers are looking to come into.

[194] **Professor Scott:** There is a danger that the private providers stack them high because they have to on those subjects that we are talking about. That means that there is a challenge to any university that might validate those private providers, or, if they are going for degree-awarding powers themselves, it is a challenge for the quality-assurance agency. We had a visit on Monday from the chairman of the quality-assurance agency and this was one of the

areas that we discussed. I was impressed that it has this in hand, but it has to be watched in Wales, but also throughout the UK.

[195] **Ann Jones:** What evidence do you have of a funding gap between higher education institutions in Wales and those in England?

10:15

[196] **Professor Price:** One of the areas that we are aware of is in the high-cost subjects, and, certainly, if we lose any further support for STEM or for the clinical subjects, that will put an increasing strain on the ability to provide at an internationally-competitive, high-quality end. Although you do not want to be whingeing too much about us compared to England, it is about ensuring that we are competing at an international level. We want to attract really high-class students from Wales and beyond, and to do that we have to provide them with the infrastructure, facilities, equipment and NHS experience—all of those other factors that contribute to the totality of the experience. In the high-cost subjects, in particular, that is increasingly becoming a strain.

[197] **Ann Jones:** Is the policy in England of not restricting the number of ABB A-level grade students that an English institution can take having an impact on Welsh HEIs?

[198] **Professor Price:** Our experience so far is that they are competing increasingly for the widening access and participation groups, and targeting those groups that we may also wish to encourage to stay in Wales to go across the border.

[199] **Professor Scott:** To go back to your first question, Ann, if I may, because I can give a localised answer, there is plentiful evidence that the University of Chester, which is only 12 miles from us, gets considerable capital investment from England, whereas, because of the formulas, we have not had major capital investment since 2008. That is a long time. In fact, in the last 12 years that I have been here, we have had major exceptional capital investment of only £7.5 million, which is probably the lowest in the whole of the UK. So, there are issues here, and unintended consequences of that policy here with the Higher Education Funding Council for Wales, which have meant that we cannot get capital, and we are in competition with Chester.

[200] **Jocelyn Davies:** Simon, you wanted to come in on this point?

[201] **Simon Thomas:** Yes. On this specific point, is it the case, therefore, that there are incentives in the English system for capturing students from particular socio-economic backgrounds, and that Wales is a pool with communities where those students live and are educated? Is that reflected in what you just said, Professor Scott, in terms of the ability of English institutions to capture some investment from the English system, which is increasingly declining, if I can put it that way, in the HEFCW system?

[202] **Professor Scott:** I am getting on to a very sensitive issue here, and people will not thank me for saying this, but widening participation in the true sense is not just about fair access, it is about trying to lift the aspirations of entire communities. One of the things that we lost when a decision was made to take teacher training away from us was role models in schools and into the communities. The second thing, which I warned about at the time, was that, if those students went into teacher education, they would not travel as far as Bangor University, but would go across to Chester, because they could not afford to do it. So, they go across to Chester. We are going to have the same problem now in terms of the reorganisation of nursing, with students are going across. It opens the door for students to go out of Wales and to never come back into Wales, and there is the widening participation problem as well. So, we have a double whammy there.

[203] **Simon Thomas:** Do you see the same thing in south-east Wales, therefore, with the Valleys communities being attracted over to the west country, and that sort of thing?

[204] **Professor Price:** There is far more noticeable exerted effort, if you like, from local institutions within two-hour travel areas to come into the Welsh Valleys in particular and parts of Newport to attract students across the border, because it allows them to meet targets that are quite important for their financial income.

[205] **Jocelyn Davies:** Do you have evidence for these claims that students have done that, rather than just a feeling that that is what happens?

[206] **Professor Scott:** It is what the schools tell us, basically. We also see the numbers of students coming in and going across.

[207] **Jocelyn Davies:** Ann, did you have a question?

[208] **Ann Jones:** Yes, I just want to ask a question of Professor Scott. What will be the financial implications for you if the Welsh Government accepts Adrian Webb's review group's proposal for a reserved-powers federal model between your institution and Coleg Cambria?

[209] **Professor Scott:** I think that there are all kinds of issues in relation to that, which have to be seen through, but the primary issue is that we are a university and the authority of the university is vested in the board of governors of the university. So, we cannot see how you could put another committee over the top of the university, without losing university authority. We are still in negotiation about all of this, of course, within the university and with the Minister. I am meeting HEFCW following this meeting, and I am also meeting the Minister on Monday, about this. A number of options are given in the Webb review. I think that there are some options that are not in the Webb review that we also need to talk about with the Minister, and I think that he is receptive in that he wants us to have a discussion with him, although he is not opening the debate again.

[210] The other issue also relates to the fact that, it is all very well asking us about this, but what does Coleg Cambria think about it? It has its own particular mission and its own particular vision of where it wants to go, and we know where we want to go. So, it is a little too early to say.

[211] **Ann Jones:** Okay. May I go back to a point that you made around widening participation? I know that that is very close to your heart and to your university, Mike, as an ethos. We would be interested to see the evidence that you have around the fact that, when teacher training was taken away from Glyndŵr University, based on the assumption, I think, that people would then go to Bangor, that did not then happen. You also mentioned that the new nurse training is going now, and you can see that trend happening with nurse training as well. There are some bigger and wider issues around providing training for nurses and for healthcare across north Wales; the Cardiff School of Medicine might as well be in another country for people in north Wales. So, I would be interested to have a little more evidence around that. I do not know whether Cardiff has anything to offer about students not liking to travel from the north to the south.

[212] **Professor Price:** I think that it varies across programmes. With both medicine and certain courses that we provide exclusively in Cardiff, such as physiotherapy, the placements are all-Wales placements, and that is a fundamental part of the course. Students are made very aware before they come that this is a part of the experience that they will get. With nursing, it is slightly different, because, obviously, there is a range of options in south Wales as to where

people can go. What tends to happen is that people go to the closest place to them. I can see where the concern will be in north Wales. It is one of the biggest widening access and participation groups, even for us, and travel is a big issue.

[213] **Ann Jones:** You mentioned physiotherapy, and that is one of my bugbears. Physiotherapy courses are offered in Cardiff University. Well, for someone who has struggled to get on the course, and has come through a widening participation course to get there, to then make them come all the way down from north Wales, and to place them in outer X—I am not going to say anywhere, it is a place that we use in north Wales; we always say that, if you are naughty, you will be sent there to do your placement—is a turn-off. That is why I think that there are issues around just saying, ‘Well, Cardiff offers physiotherapy’. Really, truthfully, that is of no use to people who are on Anglesey and trying to get from there down to Cardiff, and then maybe being shipped somewhere else to do a placement. It is all very well saying that you offer it—you will offer it for those students that can afford to go and do the placement, but not necessarily for the widening participation students for whom Glyndŵr has an ethos.

[214] **Professor Price:** I think that we do have a very strong widening access and participation philosophy. In fact, that is increasing with our new vice-chancellor. Certainly, in that particular instance of physiotherapy, what we do is to look at where people come from in the first place and try to ensure that their placements are in that area. It is the same for occupational therapy and other areas. We are very well aware that living away from home is quite difficult. Fortunately, the funding for certain workforce-planned courses in Wales comes through a different route, so we are actually able to look at the placements, where they stay and the funding that students can have to allow that to happen.

[215] **Ann Jones:** All right. Thanks.

[216] **Jocelyn Davies:** Paul, shall we come to your questions, because yours are on cross-border issues, are they not?

[217] **Paul Davies:** Yes, they are, but before I ask you some questions around cross-border flows of students, I just want to come back to what was said earlier. Professor Scott, I think you mentioned that you believe that the current tuition fee policy cannot continue in the long-term, and I presume you say that because it could make the current university structure unsustainable in the future. Is it therefore your view that, if the current policy does continue beyond the Assembly election of 2016, we could see more university mergers in the future?

[218] **Professor Scott:** I do not think there would be cost-effectiveness in any further university mergers. I have gone through a career of mergers. When I started in Sunderland in 1974, within the first term, we were into a merger situation and it has been the same all the way through, whether in England or in Wales. So, I have a good sense of where you get financial efficiency and where you do not, and long distance, you do not get financial efficiency. For example, at De Montfort, I was pro-vice chancellor and we had mergers with Lincoln and with Bedford and we had to de-merge eventually, because it just did not work. The finances just do not add up. Even with modern electronic communications, it still does not work. People want to see you and people want to have a meeting with you. That costs money and time, so I cannot see that that is happening.

[219] When it comes to the actual funding, I think that we all forget something. When the Government in Westminster—it did not matter which colour Government—decided to allow universities to have fees, they were top-up fees. What has occurred is what I have argued would occur—and I argued about this in Downing Street itself—which is that top-up became core. That is what has happened. It has been a get-out, I am afraid, from Westminster. It does not matter which party it was, it was going to be a get-out from the problem of financing

higher education, and it is a big onus and it is going to get worse. If you are talking about the major research universities, and we are proud that we have one of those in Wales, in Cardiff, the strain on those universities is going to get worse and worse in terms of the fee that has got to go up. However, on widening participation, we get no real funding for the concept of widening participation, which is a little different from the concept of a Russell group university, which is to do with fair access, rather than widening participation.

[220] However, if you take our students, 44.2% of our students are from the lower socio-economic groupings. There are big issues there about familiarisation with a particular culture, that is, the university culture, not just for the students, but also for the staff, in terms of the staffing implications and staffing development that you have to do, as well as helping the students through. All of that is a big issue; it is not just, 'Are we going to go into these communities and take some students out and then they can survive or not?' Of course it is not; there are big issues, and they have to be funded. We cannot see how that is going to happen in the future without the increase in fees, and we are just ordinary punters—we are voters—who can see the struggle within Westminster, or here in Cardiff, about making ends meet. We are in a recession, and it is tough, so it is just common sense to us. It is not a criticism. I am not criticising the Government here, the Assembly, or the Westminster Government. It is just common sense. They are not going to be able to sustain this and do all the other very good social things that they wish to do as Governments.

[221] **Jocelyn Davies:** I think you have given a broader answer than the question there. [*Laughter.*] Shall we come back to your question, Paul?

10:30

[222] **Paul Davies:** How have changes in the pattern of cross-border flows of students affected enrolments for full-time undergraduates in the 2013-14 academic year, and what is the financial impact of these changes?

[223] **Professor Price:** We are seeing a bit of a pick-up now. There was a little bit of a dip originally, but it has started to pick up, and the very early figures from UCAS for this year suggest that that is going to go up again. However, it is quite difficult to look at what the core funding for things such as innovation and engagement, and widening access and participation, will be when that core funding is going outside of Wales. Obviously, at the moment, it is following the student, and, therefore, eventually, it all adds up, I suppose, in terms of the numbers themselves. However, I think that it is around the long-term sustainability that we have concerns.

[224] **Mr Whiting:** I would add to that that we have been fortunate this year in our recruitment. However, the consequence of the existing fee grant formula is that our ability to be able to recruit Welsh-domiciled students, going forward, is going to be diminished, because, obviously, the funding follows the student. I believe that Huw has provided evidence that demonstrates that the cross-border flows from Wales into England, and beyond, have increased since the current policy was invoked. I suppose that one of the unintended consequences of that is that that then provides a squeeze on the funding that is therefore available for Welsh universities.

[225] **Jocelyn Davies:** Are you suggesting that the money should not follow the student, and that instead of student support it should be Welsh university support?

[226] **Mr Whiting:** I think that it would be useful at this juncture to have a look at the existing policy for funding students to study outside of Wales.

[227] **Jocelyn Davies:** Paul was asking you about the patterns. I am assuming then that you

are attracting students in.

[228] **Mr Whiting:** Yes, we are.

[229] **Professor Scott:** Actually, our student intake this year has gone up considerably, although we had a dip last year. We believe that that was because of the situation, and people not understanding about fees and among other things. However, it has gone up significantly—it is almost 40% up this year—but the percentage balance between Welsh students and English students has remained more or less the same.

[230] **Jocelyn Davies:** Okay. Is that the same in Cardiff—is the balance more or less the same?

[231] **Professor Price:** Yes, more or less—it fluctuates year from year, but more or less.

[232] **Jocelyn Davies:** Did you want to come in on this point, Julie?

[233] **Julie Morgan:** What is the balance?

[234] **Professor Price:** Last year, for us, I believe that 32% were Welsh domiciled.

[235] **Julie Morgan:** Did you say 42%?

[236] **Professor Price:** No, 32%.

[237] **Julie Morgan:** From Wales?

[238] **Professor Price:** Yes, from Wales.

[239] **Jocelyn Davies:** So nearly 70% were from outside Wales?

[240] **Professor Price:** Yes; that includes students from the European Union, and international students.

[241] **Jocelyn Davies:** Okay. What is your balance?

[242] **Mr Parry:** Of our UK students, over 50% of them are from Wales. We have a large number from the EU, and from outside the EU as well.

[243] **Jocelyn Davies:** So, if you are just looking at the UK, it is over 50%, but what proportion of your whole intake are Welsh students?

[244] **Mr Parry:** Over 50% of our UK students are Welsh-domiciled students.

[245] **Jocelyn Davies:** Yes, but what is it as a proportion of your whole student intake, because you said that you have overseas students?

[246] **Mr Parry:** About 40% will be Welsh domiciled, and about the same number, or just under that, are from the EU and from overseas. Therefore, it is about 16% or 17%—

[247] **Jocelyn Davies:** Okay. Peter, did you want to ask something on this point?

[248] **Peter Black:** What is the net impact on the finances of the higher education sector in Wales of the money following the students across the border to England, and English students coming back here?

[249] **Mr Whiting:** I am not sure that we have calculated the net impact; I think that the consequence will be that the fee grant that is available for Welsh universities will increasingly be squeezed.

[250] **Peter Black:** So, you are getting less money, you think—you are not getting enough money coming in from England to compensate for the money that is going out of Wales?

[251] **Mr Whiting:** It is possible, but—

[252] **Professor Scott:** I think that you would have to ask HEFCW that, in order to have the total view of that.

[253] **Jocelyn Davies:** But you said that you have kept your fees relatively low. So, when you have an English student coming in, they pay that relatively low fee, because you have the same fees, regardless of—

[254] **Professor Scott:** Yes, except for international students, of course.

[255] **Jocelyn Davies:** Yes, of course, except for international students. Okay. Paul, shall we go back to your questions?

[256] **Paul Davies:** Just to follow on from Peter's question, the Minister for Education and Skills made it clear to the Assembly's Enterprise and Business Committee last month that

[257] 'Wales, in fact, is receiving far more income from England-based students moving into Wales than we pay out to Welsh students flowing the other way across the border'.

[258] To clarify, as far as your own universities are concerned, is that the case? Do you agree with that statement?

[259] **Jocelyn Davies:** Is that a 'yes' or 'no'?

[260] **Professor Price:** It is not quite as straightforward, because other funding streams have gone down, so we are getting the funding for the student, but we then have the cut on widening access and the cut on innovation and engagement. So, other things have gone down, and I am not quite sure, overall, that it works out.

[261] **Professor Scott:** These are grey areas, are they not? I understand that people in politics cannot say in public that these are grey areas, but as universities, we specialise in grey areas [*Laughter.*] That is part of what we are about. So, there is no criticism either way.

[262] **Jocelyn Davies:** Simon, did you have a point on this?

[263] **Simon Thomas:** Yes. Just to clarify my understanding, the sums of money concerned might be similar, or whatever, but the money that is coming into Wales is, in effect, student debt, and the money going out of Wales is Welsh Government money. So, in terms of us scrutinising the effectiveness of the use of public money, we need to be aware that the sums might be the same, but where they come from is very different.

[264] **Professor Price:** Absolutely.

[265] **Simon Thomas:** That is the case.

[266] **Professor Scott:** To make a comparison with Scotland—if Scottish students go to

Scottish universities, they get the subsidy, but they do not get it if they go elsewhere.

[267] **Simon Thomas:** There are different cross-border flows in Scotland, but anyway, we are not looking at Scotland. [*Laughter.*]

[268] **Professor Scott:** That is a different debate, is it not?

[269] **Jocelyn Davies:** Paul, shall we come back to your questions?

[270] **Paul Davies:** To clarify then, you believe that the number of Welsh-domiciled students to all higher education institutions might be decreasing slightly, because the money is following the student out of Wales.

[271] **Professor Scott:** Yes.

[272] **Professor Price:** Also, the source that it is coming from is different.

[273] **Paul Davies:** Do you think that the Welsh Government needs to publicise the tuition fee grant to potential Welsh students more effectively, in your opinion, or are Welsh students aware of it and choose options other than university?

[274] **Professor Scott:** Judging by the number of Welsh students that are going into English universities, I think that it is publicised quite well. [*Laughter.*] It comes through the school.

[275] The other issue, which is very interesting, is to do with industry, and the education of students within industry and work-based learning. Work-based learning, at the moment, seems to be the province of just the further education sector, but, actually, the economy needs higher education skills. Therefore, one of the things that we are trying to do with major industries in north Wales is develop programmes and degrees with companies, so that the students who go into those companies do not just go in on a higher education apprenticeship, but they go in with a higher education apprenticeship and take a degree.

[276] At the moment, apprenticeships are with FE rather than with HE, so that needs to be clarified, and the funding of that needs to be clarified. That would help us enormously if we could get more funding for work-based learning, particularly in our area, where we have the largest manufacturing complex, certainly in the UK, and one of the largest in Europe. It would be wonderful if we could do that. If we go into Airbus, we go into Airbus with no money. Airbus never has money, because its margins are tight and that is the same if we go into Toyota, JCB, United Utilities or UPM Papers. In fact, with a number of those, we have gone in and developed foundation courses and we are taking those on to Bachelor courses or, indeed, Master's courses. However, some of that we do, as ever, without any pump-priming, just as our research is done without pump-priming.

[277] **Jocelyn Davies:** May I come back to Paul's question on students knowing what the regime is in Wales? If they have yet to make their decision about university, why would a Welsh student know? If they get their news where everybody else gets their news, which might not be from Welsh media, they will have the news of the English system. Certainly, the young people to whom I have spoken, once they have made their decision, might be told about the finance in schools. However, before they have made their decision, their impression might be completely different.

[278] **Professor Scott:** We go out to a lot of schools and we do a range of access programmes, part of which is to talk about finance. That is what we do in north-east Wales.

[279] **Professor Price:** That is across the sector. We spend a lot of time going into schools, both in terms of collectively representing the university sector in Wales, not just our own university, and in terms of raising aspirations. I would like to make that clear. However, I would accept that there are still some students for whom, no matter how many times you seem to tell them, it is not until the moment that they make the decision that they really start to pull that in.

[280] **Jocelyn Davies:** So, you are satisfied that the Welsh Government does not need to do any more, and that Welsh pupils, before they have made their decision, and the decision could be based around the finance, will know what their position is?

[281] **Professor Price:** Certainly, in some schools that I have been to recently, you even have the sixth-form careers people starting to say, 'We're not sure how long this model will be funded, so don't take a gap year, go now'. So, I think that there are quite a number of messages getting through around that.

[282] I also wanted to pick up the point on work placements and the fact that it is not just for further education level. It is increasingly about ensuring that the graduates who come out are fit for going straight into graduate employment. More and more courses at all levels are trying to work in partnership with the industry to make sure that at least part of their section is a work-based experience, so that they have the right skills mix as well as higher education skills going out.

[283] **Jocelyn Davies:** Julie, shall we come to your question now?

[284] **Julie Morgan:** Before I go on to that, I would like to check something with Cardiff. You know the 32% figure that you gave for Welsh students who were going to university, is that figure out of all your students? Does that include international students and everybody?

[285] **Professor Price:** Yes, it is about 32%. It fluctuates from year to year, but this particular year it was 32%.

[286] **Julie Morgan:** I just wanted to clarify that it was 32% of all students. We have had quite a bit of debate already about the fact that both institutions think that the present Welsh Government policy is not sustainable. What would you like to see in its place?

[287] **Professor Price:** This is a magic wand moment. [*Laughter.*] Certainly, we would be looking to ensure the sustainability of the whole sector, to ensure excellence, high quality and good experience that will attract high-quality research. The funding that can be used to support the sector can be used as leverage for value for money to bring in more research grants and high-quality international students who will want to come because they know that they will get a good experience in a capital investment sector, if you like, where the equipment and the people are good. It is not just about the building; it is also about having high-quality people. As I said before, it is perhaps not all or nothing, but looking to see whether there are ways of supporting those who are disadvantaged to be able to get access and support them while they are here. That is the other thing—it is quite easy to forget that it is not just about giving people access but also about ensuring that we have the support mechanisms in place to make sure that they do not then fall out of the system while they are here. Also, it is about what we do in the longer term to get good researchers, good postgraduates and good people coming in to the sector as a whole. There are a number of different models that I think we just need to look at.

[288] **Julie Morgan:** So, you do not have any proposal about tuition fees or grants?

[289] **Mr Davies:** There was a suggestion in our paper that indicated that, perhaps, it could

be restricted to those studying in Wales alone. That is an option.

[290] **Julie Morgan:** You are proposing that?

[291] **Mr Davies:** We are not. I think we put it up as a suggestion, but it is one of many options that could be looked at. We are, clearly, aware of the disadvantages that apply to that particular option in terms of being able to satisfy demand on all our courses within the sectors.

[292] **Professor Price:** It is about using the money to leverage more money into Wales. I think that that is something that we really need to look at.

[293] **Professor Scott:** I want to come back to this whole business of Welsh students, really, and the money following the students and going into the universities. We want Welsh students to come to Welsh universities and we want them to be proud of going to Welsh universities. Therefore, the universities have to be financed correctly, in the different regions where the universities are, so that the students feel proud that they went to Cardiff, Glyndŵr, Aberystwyth or wherever. If we can find an incentive whereby Welsh students are encouraged to go to Welsh universities, which might bring more money into Welsh universities and allow a greater capital investment, for example, then that will start the ball rolling over a period of time. If you have an incentive at the moment that Welsh students are going into English universities that have more money and more realisation in terms of capital, you are just going to get a decline in the way in which Welsh universities are perceived.

10:45

[294] I do not want to get into a long-term situation whereby we are disadvantaging Welsh students from having an experience outside of Wales, because that is not what we want Wales to be; we want Wales to look outwards. However, we have to accept a situation whereby there is certain underfunding. There is a funding gap between us and England, between our universities—whether it be Cardiff or Glyndŵr, and universities across the border. One thing, for the moment, that we could look at would be to say, ‘Okay, if you are going to a Welsh university, you will be funded; if you are going to an English university, you will not be funded, or you will only be funded by 10% or 20%, or whatever’, just to try to equal it out, so that we can build up the reputation of all of the universities in Wales for what we do and for the missions that we do. That is what we have to do.

[295] **Julie Morgan:** I understand the points that you are making, but I think that there are major disadvantages with that model, in terms of the aspirations of young people. Obviously, you would want Wales’s universities to be at the top of those aspirations, but you do not want to be restrictive either.

[296] **Professor Scott:** Yes, you have to get them to be at the top. Actually, my chairman—

[297] **Jocelyn Davies:** Julie did not ask you a question. [*Laughter.*] Wait until you are asked a question or I will have to get my Judge Judy face on. [*Laughter.*] Julie, do you have a question?

[298] **Julie Morgan:** The other issue that I was going to ask about was the income from overseas students. We have touched on that already, but if you could just briefly say how important that income is and whether there is evidence of overseas students not coming here because of the visa policies. Could you tell us quickly how that has affected your funding?

[299] **Professor Price:** Certainly, we are finding that Indian students particularly have had a very negative press around coming to the UK, generally, and that is quite a battle for us at

the moment, in terms of visas for coming to us. For us at the moment, China is one of the areas where there is a particular interest, as is Malaysia. As a university, we are very well aware that we may need to be strategic in terms of the cost of bringing those students in, so we need to work very wisely in terms of how we recruit.

[300] **Jocelyn Davies:** When you say ‘negative press’, do you mean in India?

[301] **Professor Price:** In India, about getting in to the UK. It does not help that a lot of the online forms are quite difficult and that the website is not encouraging. Australia says ‘Come to us now’ but our website has barriers. So, there are quite a lot of perceptual things about it being difficult.

[302] **Mr Davies:** In terms of figures and the importance to Cardiff, we will be receiving £56 million in income from overseas students in this financial year, which represents over 12% of our total income.

[303] **Julie Morgan:** What would that have been last year?

[304] **Mr Davies:** It was at £48 million, so it has gone up by 10% and our target is to increase that by 10% for the next four years again. So, it is quite ambitious, but it is coupled with more students and increasing fees by a reasonable amount.

[305] **Julie Morgan:** So, you are becoming even more international.

[306] **Mr Davies:** I believe that we are. In comparison to other Russell Group universities, we are still a small bit behind them in terms of percentage of income coming from those sources.

[307] **Jocelyn Davies:** Mr Scott, it was a question; you are allowed to answer, at this point. *[Laughter.]*

[308] **Professor Scott:** Our widening participation ethos is actually a philosophy that goes beyond borders. One issue with the Government’s visa regulations is that Indian students cannot come here because, when they come, they have to pay their fee. They used to be allowed two years in order to work in the UK. Those two years of working in the UK would get them enough money to pay back their fee. However, if they go straight back to their own country, they cannot pay back their fee. These people are not just on an easy ride; these people are coming in order to sustain their whole families abroad, and there is, therefore, a social issue. I admit that Governments have to look after their own country, but if you have a university with a widening participation view and ideology, then those spread. They do not stop at boundaries. That is what Government policy has done. What the Canadians and the Australians immediately did was to say, ‘Well, come and spend four years here afterwards, rather than two years’, while we cut it. The Indian market has been totally decimated, and we have such a bad press now in India. China has held up, because the Chinese students can still afford it and so on and so forth. How long the Chinese market will hold up, who knows? Again, I have been working in the international field for a long time—one of my jobs at my previous institution was as pro-vice-chancellor for international—and you could see that Governments in other countries could turn the tap on and turn the tap off very quickly, and then we would have a problem.

[309] **Jocelyn Davies:** Would you explain what the rule changes are?

[310] **Professor Scott:** The changes are that, unless you have highly trusted status, which a university has, for taking in international students, the students who come to you are not allowed to work while they are with you—not allowed to do part-time work to pay for their

fees. That is one thing. However, students, after they graduated, used to be allowed to work in the UK for two years. Even if you have highly trusted status, very few students are allowed to do that now, so they have to go back, and they go back with a big debt.

[311] **Jocelyn Davies:** I see, and they used to use that opportunity, those two years, in order to accumulate enough money to pay for—

[312] **Professor Scott:** To pay for their education. They cannot get that back in India, because their salaries are not as high. So, it is a natural thing; they are not going to come.

[313] **Professor Price:** Often, the extended family is participating in sending one student.

[314] **Julie Morgan:** May I ask you, Professor Scott, what percentage of your income is from overseas students?

[315] **Mr Whiting:** Last year, it was about £8 million, so it is about 17% of our income, and it has grown.

[316] **Julie Morgan:** So, despite the visa issues and the—

[317] **Professor Scott:** It has gone down this year, however. At Wrexham, it has gone down but, as you probably know, we opened a centre in London, where it has stayed steady. That is not with Indian students; we have had an influx of south American students coming to London. However, at Wrexham, the Indian student market has collapsed.

[318] **Jocelyn Davies:** Simon, shall we come to your questions?

[319] **Simon Thomas:** Rwyf am ofyn fy nghwestiynau yn Gymraeg, a throi at ymchwil a'r arian sy'n cael ei roi gan Gyngor Cyllido Addysg Uwch Cymru ar gyfer ymchwil. Mae dau gynllun, o'r hyn rwy'n ei ddeall: un ar gyfer ymchwil ansawdd, neu *quality research*, ac un sy'n cefnogi ymchwil ôl-raddedig. Mae tua £70 miliwn ar gyfer QR a thua £5 miliwn ar gyfer ymchwil ôl-raddedig. A ydych chi i gyd yn cael rhan o'r pot hwnnw? Sut mae'r arian hwnnw'n cael ei ddefnyddio ar hyn o bryd i gefnogi ymchwil yn eich sefydliadau?

Simon Thomas: I will ask my questions in Welsh, and turn to research and the funding that is awarded by HEFCW for research. There are two schemes, as I understand it: one for quality research and one that supports postgraduate research. There is around £70 million for QR and around £5 million for postgraduate research. Do you all receive funding from that pot? How is that funding used at present to support research in your institutions?

[320] **Mr Davies:** May I answer for Cardiff first? We currently get £40 million of the total pot—

[321] **Simon Thomas:** So, it would be fair to say that that is the lion's share.

[322] **Mr Davies:** Yes, and we are obviously a research-intensive university. Basically, that £40 million underpins—together with the tuition fee income, with a bit still coming from the funding council or from the student—the whole fabric of the university in terms of its academic staff, support staff and infrastructure. So, it is not additionality; it is core. Certainly, if that were to be removed or reduced, we would suffer accordingly. It is what allows us to build the base, and then we use overseas income and other sources of income to build on that base. It is absolutely crucial to Cardiff University that that level is maintained.

[323] **Simon Thomas:** I suspect that it is a different story in Glyndŵr, but I would like to

hear it.

[324] **Professor Scott:** We get nothing, although you will know that we have some real world-class research, which has been in the papers recently and so on. We get nothing at all. However, it is even worse than that, because when we got some money, which was back in around 2008, for every £1 that we got from HEFCW for research—which was something like £375,000; nothing compared with Cardiff, and we are not in the same league, although we are in certain subjects—we were making £11 ourselves, which was the highest proportion. Again, we are much smaller, and the closest to us was Cardiff, where, for every £1 that it had from the funding council, it was making £3—we were making £11. The funding council withdrew that money, however, because it changed the rules after the last research assessment exercise about who would qualify. Not only that, the research money that you get from HEFCW is one of the criteria that it uses to determine whether you should get capital allocations. So—

[325] **Jocelyn Davies:** It is a gateway for funding.

[326] **Professor Scott:** Yes, it is the gateway for further funding. So, the funding loss for Glyndŵr is really significant, yet, in our university, if you are not doing research and you want people to aspire to something—. That is why we have had to try to fund the extra-large telescope ourselves. It is not only that, but with all the work that is going on at OpTIC, people hear about it. Also, we do a huge amount of research work over at OpTIC for which we are not getting any funding at all. Again, it is an unintended consequence. I argue it, and if you could argue it for us, I would be very grateful. We need it as core funding in the same way as Cardiff—not the same percentage as Cardiff, but we do need it.

[327] **Simon Thomas:** Rwyf am ddeall y cymhelliad neu'r cynsail ar gyfer y penderfyniad hwn. Rwy'n deall bod Prifysgol Caerdydd yn brifysgol ymchwil uwch a'i bod yn brifysgol Grŵp Russell, ond a allwch esbonio beth y mae'r cyngor cyllido yn ei ddefnyddio fel cyswllt neu ddolen i benderfynu ar yr arian hwn? Ai'r RAE sy'n arwain y penderfyniad yn y bôn? Rydych yn nodio, felly dyna beth ydyw.

Simon Thomas: I just want to understand the incentive for this decision or the premise for it. I understand that Cardiff University is a research intensive institution and that it is a Russell Group university, but can you explain to us what the funding council uses as the basis for deciding how to allocate this funding? Is it basically the RAE that guides the decision? You are nodding, so I see that that is the answer.

[328] Rydym yn symud at y REF newydd, felly trof atoch chi yn fwy penodol, gan ei bod yn amlwg bod y cwestiwn wedi cael ei ateb o safbwynt Caerdydd. A fydd cyfle gan Glyndŵr, gyda'r REF newydd, i gysylltu'r arian hwn?

We are moving to the new REF, so I will turn to you more specifically, because it is clear that the question has been answered from the Cardiff perspective. Will Glyndŵr have an opportunity, with the new REF, to link to this funding?

[329] **Professor Scott:** No, I am afraid not, because it is not just your score at the REF; we got very good scores in areas of the RAE last time. It is the critical mass of staff that you have.

[330] **Simon Thomas:** Right, but is it HEFCW's critical mass, or the—

[331] **Professor Scott:** No, HEFCW decides where the cut-off line is. Strangely enough, it is just one person that—. Do you know? The point is that you would be able to develop your research strand if you had that money, because you would be able to employ more people. As it is, I have to say that, with some of the work that we are doing on high-precision surface technologies in polishing, we have actually increased the number of people, because we have been getting contracts from all around the world—from Canada, India and China. We are

getting contracts coming in, so we are increasing in number, but they are not taking the research forward so much as just doing the contract work. We have argued this point for the last four years, but we understand that it is going to be just the same with the REF, and it is that double whammy that we get with it. I do not think that people have understood that.

[332] **Simon Thomas:** I think that there are possibly two issues here. One is—

[333] **Jocelyn Davies:** Simon, are you going to put this as a question?

[334] **Simon Thomas:** Yes.

[335] **Jocelyn Davies:** Thank you. I do not want you getting what Mr Hedges has. *[Laughter.]*

[336] **Simon Thomas:** No, no—I was about to say ‘is’, which I think is the start of a question.

[337] Is the allocation of £71 million sufficient for research in the Welsh context anyway? That is the first question. The second question—which I will pose as a question now—is, if we were to divide £71 million between all these institutions, would it be effective in research terms for the Welsh block of HE, or should a strategic decision be taken about where research money goes? I just want to tease out from both of you in that regard where you see this sum of money going. Is it likely to remain as a core, or is it under threat from the other pressures that we have talked about? If it does remain, and it is the REF that is used, is there another strategic kind of view that should be taken about how this is used to support research in Wales?

[338] **Professor Price:** From Cardiff University’s point of view, even within an institution that is very research intensive, we have had to look at strategic decisions about critical mass, excellence and moving forward. If you take out the golden triangle in the UK generally, it is incredibly difficult to get leveraged funding. We are doing a lot—

11:00

[339] **Simon Thomas:** There is new evidence in Professor Robin Williams’s paper around that.

[340] **Professor Price:** Yes. I think that that means that we have to be clever in terms of how research funding is used. We have to use it to provide value for money and to bring in income. We also accept that there are areas within our own university where there is no funding. We have to do the baseline work in order to get the grants in in the first place. We have tried a model where we spread it out thinly and it did not really work, so we have really had to look, even within the university itself, at how we move forward. We have developed research institutes, across the university, where excellence and critical mass can come together. Otherwise, we just do not stand a chance in the future.

[341] **Simon Thomas:** I am aware that Aberystwyth University, for example, has done something very similar in those terms. However, to ask a more general question—perhaps this is more to Glyndŵr University—can you see a way forward of getting some of this research money coming to you, or is it linked to a bigger question about how we divvy up the pot vis-à-vis how much public money is available between research, student support and so forth?

[342] **Professor Scott:** I will start by saying that for every £1 that we have, we generate £11. So, we are pretty good at generating the money, even though the critical mass is smaller. However, if you took the £370,000 that we lost—I think that it was £370,000—which we

should have had as a result of the research assessment exercise, and then divided that among the big universities, there was very little that the bigger universities could have done with that. However, we could have done a lot with it. That is what we need. We need some pump-priming.

[343] I was at two universities before I came here, which were polytechnics that became universities. When they became universities, they were given pump-priming; we were not given anything. We were given £3 million towards the creative industries building as we were moving into the university status, but we were not given anything at all. For the last five years, it has been very tough since we became a university, which, okay, we accept, because, as a new university, it is going to be tough.

[344] However, we have actually achieved in research, particularly in optics, but also in composites and in hydrocolloids. We achieved in those areas and in some of the soft areas. We have even been bequeathed a research library from the late Professor Leonard Goldstein. So, we have been out getting the money and we want a bit of recognition for that. We do not want it for us. I have said this to the students and staff. It is not for us—the vice-chancellor and the staff—it is for those students, who can be proud of the fact and can say, ‘There is something going on in my university and it is the first time that it has happened anywhere in the world’, which is to polish the mirror to 10 nanometres, by the methodology that we have, the other week. People get a sense of pride about that, and we can say, ‘It is your university. You might have come from Caia Park, and this is your university’. That is great.

[345] **Jocelyn Davies:** We are overrunning now, but we will continue with this, because we had a break earlier that we were not expecting. Have you finished with your questions?

[346] **Simon Thomas:** Yes, I have finished.

[347] **Jocelyn Davies:** Mike, shall we move on to your questions and then we will try to finish the whole section?

[348] **Mike Hedges:** My first point is about research council money, and Wales has underperformed in terms of that. You will tell me that Cardiff has not, but Wales, as a whole, has. The second one is about European funding. There is European money available for research, which helps generate employment. Neither of you are based in the former Objective 1 area, but you both have a large number of students coming from that area, and there are companies that relate to that. What is being done to try to get European money in order to help research? My third point is, I went to Swansea University and the material science department there did a tremendous amount of work with a whole range of companies, locally, such as Tata, or British Steel as it was then, and a lot of others. There is an awful lot of private money that is available to universities—I am sure that Cardiff University representatives will tell me that they are getting it. So, there are those three sources to pump-prime or support research.

[349] **Professor Price:** In terms of the research councils, we brought in measures a few years ago once we became aware that our hit rate was not as good as it should be. We now have a whole raft of procedures around peer review, getting an external look at the reports going in. We are looking at big projects, collaborating either across Wales or across border, wherever the excellence is. In fact, our success rate has gone up as a result of that, and we have had 47 out of 149 wins recently. That will fluctuate from year to year, but it is an upward trend, and we have therefore discovered that, in fact, being strategic about what we apply for, and making sure that excellence is the main theme, has actually been a good way forward for us. You are quite right: we are not in an Objective 1 area, and therefore we do not qualify for certain things, but we need to look at how cleverly we can work with others to make sure that we do. Certainly, we have a lot of high hopes for Horizon 2020 as the next

round of European funding. We are already starting work with both companies and collaborators across the piece to ensure that we can try to bring some of that into Wales. We are very aware that that is something that we need to do and need to do well. We are about 1% below the Russell group average at the moment, which is a better place than we were a few years ago. A lot of work has been done and we are starting to get there, but it is something where we need that quality-related research funding to help us leverage more and more grants. It is just core to us.

[350] **Professor Scott:** From our point of view, we have research funding from the Engineering and Physical Sciences Research Council, the Biotechnology and Biological Science Research Council, and the Science and Technology Facilities Council. Since 2008, we have had about £4 million from them, which is quite surprising, really, considering we have no base to go from. As far as Europe is concerned, yes, we are looking to Horizon 2020, but we are going beyond Europe. I talked earlier about the fact that we have been in negotiations with countries outside Europe, internationally, in order to try to fund us, because the competition comes back to the same questions that Simon was asking earlier. On competition, we are right down at the bottom, so it is very difficult to break in unless we are doing things such as the ASTUTE project, with which we are involved with Swansea University, or the energy sustainability project where, again, we are involved with other universities in Wales.

[351] **Jocelyn Davies:** Peter, shall we come on to your questions?

[352] **Peter Black:** Turning briefly to the widening access agenda, does the current funding regime provide effective support to students from the lowest income households? Is this the most effective way of financially supporting this cohort of students?

[353] **Professor Scott:** I go back to what I said earlier: there are widening participation funds, but there is a difference between widening participation and fair access, and often people refer to widening participation when it is fair access. It is a strange thing this— that if you go to the funding council and you say, ‘Can we have pump-priming in relation to research?’, it says, ‘No’, and if you say, ‘Well, some of the traditional universities, which do not have as great a widening participation grouping as we do, are getting special money for widening participation, so can we have that because we are actually specialists in it?’, it says, ‘No, you do it already’. So, as a widening participation university, which is devoted to it, we are certainly not benefiting from that. That is not to criticise my colleagues in other universities like Cardiff, but that is the kind of world that we are living in.

[354] **Professor Price:** We are certainly working hard to try to look at fair access, and certainly the brightest and best from every area is what we would look to take. I think it is quite difficult to flag those students that actually then go on to university. Often, we are supporting the sector rather than our own university, because they may choose to go elsewhere. That is absolutely fine with us, because it is about raising the aspirations in Wales. We do a lot of work about ensuring that the students who have come from that particular background are the role models that go out into local schools and try to do the raising of the aspirations. I am myself a widening or open access person, if you like, who has come through that route, and I feel everybody should have that opportunity if at all possible. Whether or not it is the best use of funds is the thing that is quite difficult to demonstrate, to be honest. We have tried a number of tracking methodologies internally to look at the real benefit, and it is quite hard to quantify. We can have targets around numbers and we will obviously work to those, but it seems to us that a lot of it is a very long-term strategy to make sure that it works.

[355] **Mr Parry:** May I add to that? A lot our students, or people in schools and in these widening participation communities, are still not being convinced of it. They are still being put off, particularly by the fear of getting a huge debt. Although the figures are showing that

we are still getting quite a few students from these areas, a bigger gap is appearing within these communities of people who are just turning off from higher education totally. To some extent, it comes back to the question that was raised earlier about the promotion that the Government is giving to the fee regime. One approach might be taken outside the widening participation areas, but it needs a lot more work within those communities.

[356] **Peter Black:** How has part-time higher education provision been affected financially by the current funding regime for full-time undergraduates?

[357] **Professor Price:** At the moment, we are seeing a fall in those figures. We would hope that, with the new regime coming in and the new figures, we will be able to look at that a little more proactively. I would also hope, picking up the point that was made earlier about postgraduates, that allowing students to retain the part-time postgraduate element so that they do not maintain that perception of increased debt is something that we would hope to be able to work on in the future. It is not something that we do an awful lot at undergraduate level, but certainly we would look at how we can build on that. However, it is postgraduate study that we think is an area where part-time study could play a big difference.

[358] **Peter Black:** So, do you think that the introduction of fee loans for part-time students in 2014-15 will start to turn that around?

[359] **Professor Price:** We hope so.

[360] **Mr Whiting:** I am not sure that we would agree with that. The evidence from England has been that the introduction of higher part-time fees with associated funding has seen a reduction of around 40%.

[361] **Jocelyn Davies:** A reduction of 40%.

[362] **Mr Whiting:** Yes. The part-time market is very price sensitive, certainly for us at undergraduate and postgraduate levels. So, we are not convinced that the introduction of loans will assist. It might actually have the opposite effect and turn people off, even from part-time study.

[363] **Peter Black:** So, do you have a solution?

[364] **Mr Whiting:** We are very carefully raising our part-time fees. The other thing to be aware of, certainly for us, is that, in many instances, employers pay those fees, because we are linked very considerably with local employers. There is a certain reluctance on their part to fund fees above the present levels. Over the last 12 months, we have found that we have had fewer part-time students, but they have been studying a higher density of course at the higher fee. So, I do not believe that it is particularly following the Government ambitions in this area for part-time students.

[365] **Professor Price:** We were looking at the question earlier of what else we could do, and there could be ways of using the core funding that is currently being used for cross-border flow to look at ways to support that group in a different way.

[366] **Jocelyn Davies:** Have you finished, Peter?

[367] **Peter Black:** Yes.

[368] **Jocelyn Davies:** What about the impact on those who choose to study through the medium of Welsh? Has the funding regime had any impact there?

[369] **Mr Parry:** At Glyndŵr University, we have seen an increase in the number of students who are studying through the medium of Welsh, but we are not, particularly working through the Coleg Cymraeg Cenedlaethol, getting any assistance from it. So, the extra cost of that provision is being met totally by the university. In the same way, we have not received any of the Welsh-medium premium, either. So, once again, it is the university that is bearing the extra cost. However, as I said, we are still seeing an increase in the numbers.

[370] **Jocelyn Davies:** You had quite a lot to get off your chests this morning. [*Laughter.*]

[371] **Professor Price:** We have managed to benefit from the Coleg Cymraeg Cenedlaethol and we have both research and lecturing posts. However, it is a matter of trying to ensure that we fit within the strategic direction in which it wishes to go, which is not always necessarily where we have demand. So, marrying those two together can be difficult. For example, we have a huge amount, strangely, from music, but that is not part of the priority for our area, so we are having to balance that. We also have to balance it with having a large number of Welsh-speaking students who are actively choosing to not study through the medium of Welsh. That is also a tension for us in terms of moving forward.

11:15

[372] **Professor Scott:** We always talk about Welsh-medium education, but we had a policy in 2001, when I first came into post, which got Welsh as a second language very buoyant within the university. We were saying—and I come back to teacher education here—that people going for teacher education had to learn Welsh. Nurses have Welsh classes. We were trying to bring in Welsh as a second language across a number of programmes—I would have liked it to have been across all programmes—and it was very buoyant. However, when we lost teacher education, the next thing that we lost was the Welsh for adults money, because that was moved elsewhere. There has been a significant decline in the atmosphere and culture of the organisation related to Welsh over those years. I know we said that we have a lot to get off our chest, and we have. I think that that is probably the last one, but—

[373] **Jocelyn Davies:** Mr Scott, it is the last one, because you are at my committee and I will have the last word. [*Laughter.*] We have run out of time, and, as it happens, we have covered all the questions. We have overrun a little bit. Thank you all very much; we are very grateful for the evidence that you have given us today.

[374] **Professor Price:** If you require any further information, just get in touch and I am sure that we will be able to provide it.

[375] **Jocelyn Davies:** Yes, of course. Would Members prefer that we move straight on to evidence from the Open University? I see that you would.

[376] **Professor Scott:** Chair, we were asked if we would like to stay to observe, but we have to go to meet the funding council now.

[377] **Jocelyn Davies:** Okay. Thank you very much.

11:16

Ymchwiliad i Gyllido Addysg Uwch: Tystiolaeth gan y Brifysgol Agored Inquiry into Higher Education Funding: Evidence from the Open University

[378] **Jocelyn Davies:** We will give an opportunity for our witnesses to come up to the table. We will move into private session as soon as these questions have been concluded in

order to finish the rest of our agenda.

[379] Thank you very much for coming to see us this morning. Would you like to introduce yourselves for the record, and then we will go straight into questions?

[380] **Mr Humphreys:** Diolch yn fawr. **Mr Humphreys:** Thank you very much. Bore da, bawb. Good morning, everyone.

[381] I am Rob Humphreys, director of the Open University in Wales.

[382] **Ms Matheron:** I am Michelle Matheron, policy and public affairs manager for the Open University in Wales.

[383] **Jocelyn Davies:** Thank you very much. Can you describe and quantify for us the financial impact that the new funding regime for full-time undergraduates has had on part-time higher education provision?

[384] **Mr Humphreys:** Sure. I will start by making a general point about the sector, and that is that, as an unintended consequence, I would say, part-time provision is now disincentivised; institutions are disincentivised from providing part-time, because you can charge for full-time provision fees of £9,000, or perhaps a little bit less than that in the case of some institutions, because the fee grant tops up for students the balance above £3,500, or there or thereabouts. However, there is no fee grant for part-time provision, so we cannot buck the market, because the market is not there to charge very high fees for part-time. So, for an institution that offered full and part-time, one would imagine that, over time, there will be a trend towards bailing out of the part-time provision, because it is far less lucrative.

[385] For us, the Open University, we do not have any full-time provision, so we are in quite an exposed position in all this, nor can we cross-subsidise from full-time to part-time, which is an option that is open, to some extent, to other institutions. So, the consequence of all this is that part-time opportunities over time are likely to go into decline and/or institutions that have a large degree of part-time provision will gain less per capita for students.

[386] There is a particular consequence for us—and it is important, I think, that the committee is aware of this; we referred to it in our evidence—which is that, in order to fund the full-time fee grant, whichever side of the border it goes, the funding council, over two or three years, is withdrawing a funding stream called ‘strategy funding’. For us, that was worth £6 million a year at one point. The strategy funding was removed for part-time as well as full-time, even though it went to underwrite only the new full-time funding arrangements. That is a net transfer of public investment from part-time to full-time. Again, in an institution that perhaps has only a minority of its provision as part-time, that is perhaps neither here nor there to some extent, although it will require some internal accounting to account for it. For us, however, it is a net loss of income. To be fair to the funding council, it is aware of that and it has made particular provision for us in the present academic year, but we do not know what may or may not happen in the future.

[387] **Jocelyn Davies:** You have no assurance at all following this year as to that?

[388] **Mr Humphreys:** No, not yet, although the funding council is aware of it. However, in terms of long-term planning and thinking strategically to meet the funding council’s and the Welsh Government’s objectives, it obviously makes it more challenging.

[389] **Ms Matheron:** Also, because of the imminent changes with the introduction of loans, our view is that the part-time system is by no means settled. Loans are coming, but there have also been various other changes, and I do not think that we would be in a position to say that

we know exactly what is going to happen going forward. Also, looking at what has happened in England with the introduction of loans, it is still a bit early to tell based on that, so it is hard for us to say where things might be going. It is not a settled position for part-time by any means. I think that is why, for us, it is really important that, when those decisions are made about funding of HE in general, that part-time and full-time are considered alongside each other, rather than making a decision for full-time and then applying it to part-time afterwards.

[390] **Jocelyn Davies:** Okay. Simon, did you want to come in on this point?

[391] **Simon Thomas:** Yes. I just want to ask whether you could give an indication—you said that you could not set part-time fees at a level commensurate with the full-time fee—of what part-time fees are like. What is the sum? Also, as a follow-up to that, I understand that loans are available for 25% plus study. Does that include all of your students, or does it still exclude some part-time students in Wales?

[392] **Mr Humphreys:** At the moment in Wales, for part-time, the Open University charges for 60 credits, which is half the normal full-time undergraduate credit load, £755. There are one or two differences in certain specialist courses, but that is the main zone of the fee level: £755 for 60 credits. If you double that, it is about £1,500, which is, obviously, considerably less than £9,000 a year.

[393] **Simon Thomas:** So, that is an annual fee?

[394] **Mr Humphreys:** Yes, that is right. If we were to charge precisely 50% of the full-time fee of £9,000, it would be £4,500. You can imagine the difference in going up from £755 to £4,500. In England—obviously, the OU is a UK-wide body, so we deal with all four Governments of the UK and three funding councils—the Open University charges £2,500 and students borrow that £2,500. I think that where the real difference in the market, if we can use that term—

[395] **Jocelyn Davies:** How long does it normally take a part-time student to complete their degree?

[396] **Mr Humphreys:** If they go straight through, it will take them six years.

[397] **Jocelyn Davies:** It will take six years.

[398] **Mr Humphreys:** Yes, but they can take longer, depending on their domestic circumstances and their choices. In England, the fee is £2,500 per year, which students borrow. Can you remind me, Mr Thomas, of your second question?

[399] **Simon Thomas:** Yes, the other question was about the loan that is coming in in Wales. It is 25% of study time, I think. Will that be available for everyone, in effect?

[400] **Mr Humphreys:** It will only be for new students. Existing students, as we understand it, will be deemed transitional students and will carry on under the system that they started on. Our understanding is that the loans will be imported, if you like, under the existing Treasury rules that apply in and were designed for England. So, a student will only be able to take out a loan if it is for 30 credits or more. For anything less, such as bite-sized chunks, if you want to start out with 10 or 15 credits, or if an employer wants to purchase fewer than 30 credits, you will not have access to a loan. Similarly, with regard to ELQ—are people familiar with the ELQ restriction?

[401] **Jocelyn Davies:** No.

[402] **Mr Humphreys:** You are not eligible for a loan if you already have a qualification equivalent to the one that you are borrowing for. The Welsh Government, in its wisdom, has not applied that restriction in the past for funding in any sense, which we think was a progressive decision. The effect of it, if we think about real people—and probably a very large proportion of people in this room are graduates—is that, if a graduate wanted to retrain for a new career, perhaps they have lost their job and want to retrain, or perhaps want to just do one module in management, business, and so on, they could not access a loan to do that. So, it is a further impediment in that sense. So, the loan system is potentially of benefit, but, if it is overly restrictive, there are some limitations as to what it can offer.

[403] **Jocelyn Davies:** Okay. Paul, shall we come to your questions?

[404] **Paul Davies:** Can you tell us how effectively the current part-time funding arrangements support the widening access policy aim? Do you think that they provide good value for money?

[405] **Mr Humphreys:** That is a really good question, I think. Let me start by saying that the OU straddles widening access in both senses. So, by definition, we are opening up HE, because we offer part-time to potential students of any age, whatever their circumstances—whether they are working, have caring responsibilities, or if they do shift work—because it is distance learning and they can study in their own time. We are opening up HE by definition; it is our *raison d'être*. However, we also do very well in terms of the targeted widening participation work in the more disadvantaged communities, which you will all be very familiar with. So, we have 17% or maybe slightly more now from Communities First areas, for example.

[406] In terms of the overarching effectiveness and value for money, I think that a lot of work has been done over the last decade. The Reaching Wider partnerships in particular have done some important work across Wales. We are a full member in that and participate with the other institutions. You can always review these things and evaluate them carefully. Now that public money is rather more scarce than it has been in recent years, I think it is opportune to look again at how effective these funding streams are. There is a possible looming difficulty for the sector in this area. Some institutions have a high fee income, while others accrue less fee income—and, per capita, we are probably in that category. If the institutions with the lowest fee income overall are expected to do most of the heavy lifting around widening access, there is a potential pressure point there, because they have less money to spend on it. That is a question that needs to be asked in the grand scheme of things when higher education policy is being developed. So, is every institution expected to do the same amount of work and put their hands to the wheel in this, or are certain institutions, for whatever reason, because of their existing catchment, or simply because of where they are located or whatever it might be, expected to do more? If they are expected to do more, what is the financial incentive for them to do that?

[407] **Ms Matheron:** Just to add to that, one of the other things that we would welcome is the all-age approach to widening access. It is important that we do not get drawn into just focusing on widening access to a certain age-group of people who might traditionally be entering university. Particularly in the current economic climate, it is about protecting what is already there, and that is an approach that allows people of all ages and backgrounds to access HE through things such as the Open University. Perhaps we should also consider the potential of distance and online learning further for widening access, because it is one way in which you can open up education to people who might not traditionally have considered it. However, that all takes resources and work, and often a lot of support is needed to get people through that first step. We do a lot of work with our free educational resources, but just even helping people to understand how to use those and come in through the door. Once they are there, they tend to do well on various pathways, but it is that support that is often required as

well.

11:30

[408] **Mr Humphreys:** If I may, Chair, do you mind if I just follow up on that a little? In considering widening access—I am not directly answering your question; I am just making a general point—it is important to go back to first principles about what higher education is actually for and who it belongs to and so on. It is perfectly proper to say that higher education should belong to everybody, regardless of one's age or social background. It is critical in all this not to get trapped into thinking, subliminally or whatever in your mind, that a student must equal an 18 or 19-year-old. It seems to us that if you are in your mid-30s, 40s, 50s, or older, and so on, you have already contributed to the taxation system and you have just as much a right to an education at university level as anyone else.

[409] The Government's all-age policy in terms of widening access and that approach, overall—how you allocate the funding and so on in terms of effectiveness is a different matter—has been the right one. If you look at what has happened in England in terms of part-time, you will see that there has been a decline—somebody mentioned a figure of 40% in the previous session—but if you also look at the number of mature-age people studying full-time in England, you will see that that has also gone into severe decline, because, obviously, you are asking somebody in their 30s—someone who perhaps has a mortgage, a car loan, someone who is worried about their job, and who perhaps has children of their own who are about to go to university and take out big loans—to borrow £9,000 to study full-time. That is a big ask. So, my point here really is that it is about entitlement and rights and how we conceive of higher education and the purpose of it. It is also about the part-time market and the decision-making process that the potential part-time student as an adult goes through, which is really quite different to what an 18-year-old goes through when all their peers are going to university and the loan is just the normal way of doing it and there is potentially a long lifetime of earnings to pay that off. To some extent, perhaps, it does not see quite as real as when you are in your 30s with these other commitments.

[410] **Christine Chapman:** Just to follow on from that, Rob, and Michelle actually, what is the purpose of higher education? Do you think that we are putting too much of an emphasis on employment as opposed to higher education for its own value, and what benefits will accrue from that? Would you go as far as saying that?

[411] **Mr Humphreys:** I think there are signs that the debate is tipping over into that direction. I would say, obviously, that the notion of upskilling and HE's contribution to the economy is absolutely pivotal, both in Wales and the wider UK. I do not need to tell elected Members around this table how important improving the economic prospects of Wales are; you spend a lot of your time deliberating on these matters. That is absolutely critical, but—and I think this is perhaps what lies behind your question—you are right to say that higher education for the wider civic and cultural benefits is also critical in that sense as well. For a student of any age—but let us take a typical student of ours, which is a student in their mid-30s: if that student wants to study the history of art—they have paid taxation, and higher education is a public good—then they will be more informed, critical citizens in the round because of the skills they have attained by studying the history of art. I think that is a perfectly proper and legitimate case for public investment.

[412] **Jocelyn Davies:** Simon, shall we come to your question?

[413] **Simon Thomas:** Mae gennyf gwplw **Simon Thomas:** I have a couple of questions o gwestiynau yn y Gymraeg. in Welsh.

[414] Yn gyntaf, a fedrwch roi amlinelliad First, could you give us an outline of the

i ni o'r gwahanol systemau cyllido ar gyfer astudio rhan-amser ar hyn o bryd? Rydym wedi clywed heddiw ynglŷn â Chyngor Cyllido Addysg Uwch Cymru, ond a oes ffynonellau eraill sy'n cael eu defnyddio ar hyn o bryd i gefnogi dysgu rhan-amser? different funding systems for part-time studies at present? We have heard today about the Higher Education Funding Council for Wales, but are there other sources that are used at present to support part-time study?

[415] **Mr Humphreys:** Do you mean across the different jurisdictions in the United Kingdom?

[416] **Simon Thomas:** In Wales. I am thinking of what might be available—employer support or anything else.

[417] **Mr Humphreys:** There is employer support, and we do rather well in working with employers. However, there would be few other sources in terms of paying fees. The main source is the student fee itself and then the HEFCW institutional learning and teaching grant. As I said, going back to employers, we do quite well. We could always do better, of course. It is an interesting contrast to think about different fee levels. Only yesterday, or the day before, one of my colleagues let me know some quite good news—for commercial reasons, I will not say who it is, but a large employer is paying somewhere between £15,000 and £20,000 for a block, buying in student fees for some of its workforce.

[418] **Simon Thomas:** Do they get a discount?

[419] **Mr Humphreys:** We will come back to you on that. [*Laughter.*]

[420] Their training grant will be a set, finite amount of money. Obviously, all training grants are under huge pressure now. We know that a lot of smaller employers in Wales are under colossal pressure in the present economic climate. However, their training grant will be the same whether the fees are high or low. So, if fees went up to £2,500, which will be charged in England, instead of funding 20 students, they will simply fund four or whatever it might be. These are hard choices that, if we were thinking about supporting employers, we all need to factor in in devising fees and funding regimes.

[421] **Ms Matheron:** Just to add, I think that the other thing to bear in mind is that employers are operating in an increasingly difficult economic environment. The new Universities UK report, which came out recently, about the decline in part-time, talked about loans as one of the main reasons, as well as a high fee regime. It also talked about the effect that the economic climate has had on employers, in terms of their ability to fund, as Rob was saying, the numbers and the budget they have for training. We cannot necessarily rely on that as a solution, I suppose, to that issue. However, it is important, certainly from our point of view, to try to encourage employers to see part-time education as a way of upskilling and reskilling their workforce. We do a lot of work in that area, but we are conscious of the financial pressures that they are operating under as well.

[422] **Mr Humphreys:** One potential difficulty in the employer-related arena is the business of a cut-off point around 30 credits—funding is only available for 30 credits and above. Some employers may want to put their workforce, or sections of their workforce, through fewer than that—bite-size kind of stuff. So, we have a bit of tension there. To be fair to the Government, it wants to encourage bite-size learning. If you look at the remit letter of the Minister to the funding council last year, you will see that it talks about encouraging that kind of provision. If we then import a loan regime that does not allow for that, there is obviously a slight contradiction built into the system.

[423] If I can make one other point about working with employers and so on, which I think

is particularly pertinent in the Welsh context, there is, sometimes, a tendency within policy-making arenas to see work with employers in one compartment and widening access in another. We would like to see these things being interwoven. You will think of areas like the Heads of the Valleys or Ynys Môn, which have very low gross domestic product, as widening access priority areas. However, not everybody in Blaenau Gwent or Ynys Môn is unemployed; they are full of hard-working people who may be in low-waged employment. If you work with the employer and with their employees, you are achieving two things at once: you are upskilling the workforce, but you are also widening access and increasing participation in higher education.

[424] **Simon Thomas:** A oes unrhyw ffynhonnell Ewropeaidd sy'n gallu cael ei defnyddio ar gyfer dysgu rhan-amser? O edrych ymlaen at Horizon 2020, a oes unrhyw elfen o hynny ar gael ar gyfer y math o ddysgu y mae'r Brifysgol Agored yn ei wneud?

Simon Thomas: Is there any European source of funding that could be used for part-time teaching? Looking on to Horizon 2020, is there any element of that that is available for the type of teaching undertaken by the Open University?

[425] **Mr Humphreys:** Forgive me, Mr Thomas, I should have referred to that. I do not think that it is Horizon 2020, but there is funding available under the European structural funds, at least in the convergence areas in the working-with-employers arena. That has been well utilised—not by us, but by some of our fellow HEIs.

[426] **Simon Thomas:** So, the Heads of the Valleys—

[427] **Mr Humphreys:** Yes, for sure.

[428] **Jocelyn Davies:** Mike, shall we finish with your question?

[429] **Mike Hedges:** As we come to the fiftieth anniversary of the Open University, what are the main challenges and opportunities facing the Open University in Wales? Secondly, have you seen an increase in under-21-year-olds registering with the Open University following the increase in tuition fees?

[430] **Mr Humphreys:** I will try to deal with your second question first, if I may, Mr Hedges. Yes, we have seen an increase in under-25s. I can supply the committee with more detail as to whether there has been an increase in 18-year-olds, but we have definitely seen an increase in under-25s. This is not just in the last year or last two years since we have had higher fees, but over the past five or six years. Anecdotally, there is evidence that younger people are opting to study with us upon leaving school as a proactive and positive choice, because they want to get into the world of work, they are thinking about getting on the housing ladder and all of the rest of it. So, there is certainly a drift. I am not talking about a huge leap from one market to another, but there has definitely been a drift.

[431] In terms of wider challenges for the Open University, I do not know how long the committee has, Chair. I am willing to speak for the rest of the day. [*Laughter.*] One of the biggest challenges is working within a climate of fiscal austerity, and the fact that there is a disincentive. However, this is our *raison d'être*. It is what we do. So, there are real challenges for us, and they are challenges that we can meet. However, internationally, there has been a rise in open educational resources—that is, free offerings. I do not know if you are familiar with MOOCs, or massive open online courses, in Scotland. We see ourselves as leaders, globally, in OER, or open educational resources. However, being a leader globally means that you face global competition. So, when Harvard, or the Massachusetts Institute of Technology, or whoever it might be, is engaging in OER and making distance courses available, the courses are available to anyone in the world. So, we compete, if that is the right term,

globally, and we also seek to respond, in global terms, to far smaller student needs and demands in Wales. Again, that is a very exciting challenge to be involved in, and to work at both of those levels. I think that we do it rather well. However, it is not going to get any easier.

[432] **Ms Matheron:** To add to that, in terms of the financial context and the funding regime in which we are operating, the challenge for us is to try to ensure that a system is in place where higher education is open and accessible to anyone who can benefit from it. So, for us, we see part-time as a real opportunity for people, and we want to make sure that, whatever system is in place when changes are made to a funding regime, part-time is put at the forefront of that. This is so that those people who could most benefit are not disadvantaged in just getting through the door in the first place.

[433] **Mr Humphreys:** Was that the final question, Chair?

[434] **Jocelyn Davies:** Yes, it was.

[435] **Mr Humphreys:** Do you mind if I sum up on one point?

[436] **Jocelyn Davies:** No, not at all.

[437] **Mr Humphreys:** I just wish to reiterate a point that Michelle made earlier on, namely that we are very aware that your terms of reference for this inquiry are predominantly based on full-time. However, it is a zero-sum game. If the Government allocates x millions of pounds to full-time or y millions of pounds, you are either shrinking or enlarging the slice of cake that is available for part-time. So, you are making a decision for part-time at exactly the same time as you are making it for full-time, because you are allocating the amount. Historically, in the UK as a whole, part-time has tended to have to pick up the scraps that are left after the full-time budget. It is an interesting thought experiment to do it the other way around. You could say, 'Let's devise a bespoke and really effective system for part-time and then, whatever is left over can be for the 18-year-olds; we're not bothered about that.' Imagine if you did that—the consequences would be damaging. However, they are also damaging by doing things the way they are being done already. So, I would encourage you and anyone else in the policy-making arenas to think about HE in the round. In particular, Wales has a very strong and proud track record of supporting adult education, and we need to continue that.

[438] **Jocelyn Davies:** I should have said at the beginning that I have a daughter studying part-time, although she does not live at home. So, I do understand.

[439] **Mr Humphreys:** I wish her well.

[440] **Jocelyn Davies:** She is not dependent on me, although we are paying her fees for her, because she would not be able to afford to do it otherwise, to be honest. But there we are. Thank you for your evidence.

11.45 a.m.

[441] **Mr Humphreys:** Thank you for the opportunity—diolch yn fawr am y cyfle.

[442] **Jocelyn Davies:** We will send you a transcript once it is ready so that you can check it to make sure that it is factually accurate.

Papurau i'w Nodi
Papers to Note

[443] **Jocelyn Davies:** We have a paper to note. Are Members happy to do that? They are just the minutes of 7 November. I see that you are.

11:45

**Cynnig o dan Reol Sefydlog 17.42 i Benderfynu Gwahardd y Cyhoedd o'r
Cyfarfod**
**Motion under Standing Order 17.42 to Resolve to Exclude the Public from the
Meeting**

[444] **Jocelyn Davies:** I move that

the committee resolves to exclude the public from the remainder of the meeting in accordance with Standing Order 17.42(vi).

[445] I see that Members are content.

Derbyniwyd y cynnig.
Motion agreed.

Daeth rhan gyhoeddus y cyfarfod i ben am 11:45
The public part of the meeting ended at 11:45.