

Education and Life-Long Learning Committee

POLICY REVIEW OF HIGHER EDUCATION

Paper Submitted jointly by HEFCW and FEFCW

Introduction

HEFCW greatly welcomes the National Assembly's Review of Higher Education. Developments in the wider higher education (HE) environment, together with major changes in arrangements for post-16 education in Wales, make the review particularly timely.

In varying ways, according to their diverse missions, the higher education institutions (HEIs), and those Further Education (FE) partners who deliver HE, make a key contribution to the fulfilment of the National Assembly's strategic ambitions for Wales as set out in www.betterwales.com. This is particularly clear in respect of the following action areas:

- *Better opportunities for learning*, where HE contributes to assisting individuals to gain the range of skills and knowledge required to fulfil their potential and prosper in the new economy; to the promotion of creativity and entrepreneurship; and to driving up standards of teaching in schools through its role in the training of teachers.
- *A better, stronger, economy*, through HE's role in developing the workforce; through the provision of expertise to companies; through spin-out of technologies; and through raising the international profile of Wales via their reputation for research and teaching.
- *Better health and well-being*, as the principal provider of trained personnel for the health service; through HE's role in the delivery of health care; and as a major source of research into health-related matters.
- *Better quality of life*, in many ways, not least through working to increase access to education to those living in disadvantaged areas; through extending understanding of Welsh language and culture; through enabling personal fulfilment among learners; and through fostering community development.

The geographical distribution of the HEIs enables these benefits to be available in many parts of Wales, though at a price in terms of scale, and therefore cost-effectiveness, as conventionally measured. That same geographical distribution has important consequences in

terms of the contribution to the local economy of the spending power of the staff and students (including the substantial number who come from outside Wales).

Overall, HE provides a wide range of teaching, research and consultancy services to students, businesses, the health service, the public sector and the community more generally. As Sir David Rowe-Beddoe, Chairman of the WDA, said in a lecture on 1 November 2000:

"Between them our institutions of Further and Higher Education provide an enormously important national asset – arguably the most important source of Welsh comparative advantage for the twenty-first century ... Universities everywhere are emerging as our economic powerhouses in an age where innovation and technology are crucial factors for economic success."

In order to fulfil this potential, the sector needs to reach a clear understanding with the National Assembly over the broad terms of strategy for its future development.

The Changing Environment

If the Assembly's vision of an advanced knowledge-based economy is to be achieved, a fundamental requirement is for the HE sector in Wales to be internationally competitive. Otherwise, HEIs in Wales will increasingly fail to recruit and retain excellent staff and students, and will enter a spiral of decline.

To maintain, or achieve, as the case requires, an internationally competitive position, Welsh HEIs must not be allowed to become weakened relative to the rest of the UK. HE in Wales represents only about 5% of total UK HE activity, which does not give much scope for slippage.

A number of developments are raising the competitive stakes. If Wales is to maintain the strength of provision that it already has in some areas, and to increase it in others, it will be necessary to respond to these developments.

Of particular importance are the following:

- The UK Government's goal of increasing to 50% the number of young people who attend HE is putting considerable pressure on *recruitment*, with institutions across the UK putting greater effort into this activity. Recruitment is getting tougher.
- An emerging trend for students increasingly to study within striking distance of home, because of changes in *student support*, compounds the difficulties that are likely to be faced by HEIs that are remote from major centres of population.

- *Globalisation*, enabled in particular by information and communication technologies, is striking at HE, as it has already in other sectors. While the scale and scope of its impact is hard to predict and will vary from one type of provision to another, and the investment costs for electronic delivery are higher than is often realised (off-setting any desired savings in staff costs), it would be unwise to underestimate the challenge thus presented to many areas of face-to-face HE provision.
- The Research Assessment Exercise (RAE) of 2001 is unlikely to reverse the process seen in previous rounds of increasing the financial *polarisation* between institutions in terms of research funding.
- A number of HEIs elsewhere in the UK are already seeking to gain competitive advantage through various forms of closer *collaboration*. These institutions are often already larger than any in Wales.

Against that background, we can assess the prospects for the sector in terms of a number of strengths and weaknesses.

Strengths

- HEIs in Wales have an excellent record in *teaching* -- 39% of the assessments carried out between 1993 and 1997 were judged to be excellent. No unsatisfactory provision was identified.
- They outperform England and Scotland in terms of *widening access*. For example, Wales has more young students from low participation neighbourhoods (15%) than the UK as a whole (12%). Progression routes from FE to HE are increasingly being put in place, and will reinforce this performance.
- They have *world-class research* in a number of departments, and research of high international and UK-wide standing in many more. There were 21 departments with the top 5 and 5* grades in the 1996 RAE and another 100 receiving grades 3b, 3a and 4 which indicates research of UK-wide excellence.
- They make a major *cultural contribution*, not least through their pivotal role in the promotion of the Welsh language and cultural studies - through offering Welsh as a degree subject, teaching other subjects through the medium of Welsh, providing

opportunities for adults to learn Welsh, and in conducting research in these areas.

- They support local *business* and other organisations, with considerable success. Income for services other than contract research is higher than the 5% that their scale within total UK provision would 'predict'. For example, in 1998-99, Welsh HEIs' income of £38.4m represented 6% of the UK total. Similarly, Wales has a 6% share of the income from the UK-wide Teaching Company Scheme (which places postgraduate students in companies).
- Their role in the provision of high quality staff for the *health service* and for *school teaching* is central. In respect of the latter, Estyn reports attest to the high standards of initial teacher training in Wales, which are further reflected in improving school examination results.

Weaknesses

- In recent years, funding per student (the "unit of resource") in Wales has fallen sharply (being 14% down in 2000/01 on 1993/94 in real terms), and has fallen behind that in England, and substantially behind that in Scotland. This has further reduced the relative *financial flexibility* of Welsh HEIs, and their capacity to invest in new developments.
- While the RAE quality ratings in 1996 were significantly better than in 1992, this improvement was achieved in part at the expense of research volume. Income from the Research Councils and charitable bodies is below the share that would be expected from the relative size of HE in Wales. Overall, the *research base* is not as large as it might be.
- Despite the good record in *widening access*, there remain areas of Wales with very low participation in HE (although the reasons for this by no means all lie at the door of HE).
- *Geography* creates two kinds of difficulty. The rural location of a number of Welsh HEIs means that they are not able easily to tap into large populations of potential students. It also obliges them to provide substantial residential accommodation. At the same time, the proximity of most Welsh HEIs to English competitors means that their staff have other employment possibilities, without the need to uproot their families. Prospective students equally have alternative options.
- Leaving aside particular specialist institutions, *size increasingly matters* in HE. Wales has some HEIs that are no bigger than faculties within larger institutions. At the same time, in England and Scotland, a number of already quite large HEIs are engaged in

discussions about closer cooperation in teaching and/or research. This is because they recognise that:

- HEIs face numerous tasks that have largely fixed costs, independent of institutional size. A current example is the task of redesigning teaching quality assurance systems to meet the changing requirements of the Quality Assurance Agency.
 - Scale influences the breadth of programme coverage that can be offered, overall financial flexibility, and capacity to meet the development costs of, eg, electronic delivery or, in other contexts, to find matching funding for opportunities available from non-HE sources.
 - It also influences the size of research groups that can be assembled, which is an important consideration in some subjects, not least when the competition for funding is UK or Europe-wide.
- A number of HEIs have substantial *estates* problems, and limited scope to sell unwanted buildings.

Against this background, we offer three indicative scenarios for the possible future of higher education in Wales. The second and third are not mutually exclusive. Indeed, some combination of them may be the most fruitful way ahead.

Scenario 1: Aim To Maintain Status Quo

This scenario supposes that an attempt might be made to maintain the system in its current state. The Council, in its report to the National Assembly of September 1999 on *The Scope for Institutional Mergers at the Higher Education Level*, did not support this prospect, and the consequences of this approach bear spelling out.

- Given the pressures on *student recruitment*, maintaining current levels will become increasingly difficult, especially perhaps for HEIs in more rural locations. Recruitment is expensive (and even more so for overseas students). Among other things, it requires publicity materials, and attendance at HE fairs in the UK and abroad, both of which are to some degree fixed costs, independent of the scale of the institution.
- *Recruiting good staff* will become harder, not least because such staff value progression within their discipline above progression within any given HEI, and so move to

institutions that offer better working conditions and prospects.

- In order to maintain the *research base*, it will be critically important that departments that receive the top grades in the 2001 RAE are supported at levels comparable to those that will apply in England and Scotland. Otherwise, the leading researchers will be likely to move, weakening the attractiveness of their HEI to other good staff and students. The same adverse consequence would also follow if the aspirations of institutions to develop their knowledge transfer role (the "Third Mission", alongside the established missions of Teaching and Research) were to be met by drawing from the funding available to support research.
- As student numbers fell, and staff recruitment became harder, the likelihood would be that the *range of subjects* that institutions could afford to offer would also fall. (Paradoxically, therefore, one of the potential advantages of the geographical distribution of Welsh HEIs – namely, their capacity to reach widely distributed communities – would be offset by the shrinking subject coverage).

In sum, the costs of supporting teaching and research in a sufficient range of subjects at each institution would rise above UK sector-wide norms. In the absence of additional funding, these costs could be only partially met, and then only by reducing funding to those institutions that were in a position to run cost-effectively, thus leading to their rapid decline and the loss of the benefits that they bring to the economy and society.

Scenario 2: Promote Closer Collaboration

There is scope to address the issues referred to above by seeking economy of effort, increased flexibility, and enhanced performance through closer collaboration between HEIs in Wales. This scenario identifies some possible areas in which such steps could be taken.

- A number of partnerships exist within the HE sector, and between HE and FE, aiming to seek economies and improved service in respect of *student recruitment*, including widening access and overseas recruitment, though these are limited in comparison with England. With appropriate commitment, these could be intensified and expanded, via more joint market research, joint recruitment exercises, and more coherent partnerships for widening access, aimed at both raising aspirations and improving progression routes. Partnerships with the public and private sectors could also be developed with a view to offering more work-based learning.
- Steps could be taken to seek economies of scale and improved quality via further encouragement of the common or collaborative delivery of *student services* (for

example, libraries, careers advice, development of career management skills for integration into the curriculum).

- *Teaching partnerships* exist in a number of cases, most notably perhaps in Physics, aimed at maintaining subject coverage. These could be further encouraged. Geographically dispersed teaching under partnership arrangements could be supported by electronic delivery and use of the new video services network which is currently being developed, with the support of the Councils, to link all HE and FE institutions. The exigencies of geography might be turned to comparative advantage by developing capacity in learning technologies for use in Wales that is also highly relevant to the global market.
- The growing UK-wide emphasis upon more formal *research training* for graduate students offers scope for a renewed examination of the possibilities for collaborative development of training programmes, and collaborative research and/or graduate schools. Such a step could also enable better support of research activities in HEIs that are relatively less research-intensive.
- Some limited *research partnerships* have already been established by HEIs, aimed at achieving critical mass for bids to Research Councils and other bodies. In the face of growing competition, these could be further encouraged, with a view to developing centres of research excellence that might function across institutions, with a capacity to be at least the equal of those elsewhere in the UK
- In respect of direct support to the economy of Wales via the "*Third Mission*", namely, knowledge exploitation, technology transfer, consultancy services, and training programmes, existing partnerships between varying combinations of HE, FE, the WDA, and other organisations could be widened and deepened, and steps could be taken to present a more coherent face to users. Two related points are worth noting in passing:
 - Existing National Assembly support through the Knowledge Exploitation Fund is welcome and valuable, but this does not yet amount to an embedded funding stream upon which HEIs can rely into the medium-term future;
 - The capacity of HE to support the economy depends not only upon what HE can supply, but also upon adequate demand existing for its services. It would assist HE to plan for the future if there were available a clearer analysis of potential demand for high level skills and services, such as could come from a "Wales Foresight" exercise, building on the recent *Future Skills Wales* report which the Councils have been supporting.

Closer collaboration between HEIs, and with FEIs, building on the initiatives already taken by the sector, could provide significant scope for cost saving, improved service, and enhanced competitiveness. It may not, however, in all cases be capable of addressing all the issues that confront institutions.

Scenario 3: Promote Institutional Mergers

The Welsh Office letter of 6 January 1999 to the Council, setting out the funding outcomes of the Comprehensive Spending Review for HE for 1999-2002, invited the Council to identify the scope for institutional mergers at the HE level and make proposals to the National Assembly by the end of September 1999. Here we simply repeat some features of the resulting paper, *The Scope for Institutional Mergers at the Higher Education Level*.

It is worth adding that both HEFCW and FEFCW agreed in October 2000 to remove any exclusion of the possibility of HE/FE mergers. This was not because these are necessarily to be encouraged in all cases, but simply to remove a potential barrier to what might, in appropriate cases, be worthwhile developments in the interests of better, and more accessible, provision and improved progression arrangements.

Based on an analysis of environmental developments similar to that presented above (although, if anything, the competitive pressures have become even stronger since September 1999), the paper noted that:

- The largest HEI in Wales, Cardiff, was only 31st (it is now 32nd) in the UK list, with Scotland having 2 (and now 3) institutions ahead of Cardiff, together with both Northern Ireland universities. We can add that the University of Glamorgan, the largest post-1992 HEI in Wales, is still only 23rd among the 35 former UK polytechnics.
- On a pro rata basis to England, Wales might expect to have only 5 or 6 HEIs, with an average size (not including the specialist institutions) of some 12,000 to 15,000 full-time equivalent enrolments – the upper figure of that band is met by only one HEI in Wales (Cardiff University).
- Successful mergers would permit economies of scale, the creation of new synergies, and levels of investment that are difficult to marshal at present, while also sustaining a diverse range of missions.

It bears adding that the management demands within HEIs, and the wider political commitment, needed to define and successfully implement a merger strategy would be

considerable. Some institutions would inevitably stress the importance of their autonomy and lay claim to success and comfort in their present position. In addition, although the September 1999 paper did not address the issue of restructuring costs, there can be no doubt that these would be substantial, amounting at least to millions of pounds, and possibly exceeding £10 million.

Conclusion

The first scenario has heavy resource implications. While even the most cost-ineffective operation can be kept going if sufficient resources are available, in the case of HE it is likely that good staff would increasingly turn away from institutions whose survival depended on exceptional levels of public support. The Council assumes that resources will not be available to support unmanaged decline.

The second and third scenarios are presented as indicative. They suggest means to the end of a more sustainable system of HE in Wales.

The Council's view is that such a future, of the quality needed to support the National Assembly's vision, depends upon some combination of the second and third scenarios. It therefore seeks a dialogue with the National Assembly on how to steer between those scenarios and develop, in concert with the sector, the more detailed plan of action that would be needed to move forward.

In that regard, the Council suggests that the conditions for success include:

a. *A clear framework for policy.*

More specifically, this would require:

- A desire by the National Assembly and the HEIs to seek a new balance between competition and cooperation.
- A recognition by all partners of the diverse missions of HEIs, and an encouragement of each to play to its strengths.
- Encouragement of new partnerships that address the current challenges (including between HE and FE institutions), especially where they aim to access new markets rather than share out existing ones.
- An insistence on clarity of purpose in proposed partnerships. The permutations and

combinations of developments based on, for example, overlapping or complementary missions, subject coverage, geographical coverage, and relationship to the University of Wales, as well as the need to respect the particular denominational status of one HEI, are numerous. Clarity of purpose will be an essential precursor to the detailed work needed to make progress.

a. *Adequate funding.*

More specifically, this would require:

- A commitment by the National Assembly to maintain the unit of resource at least at the level of England, with the eventual aim of catching up to the Scottish level, in order to secure the general operation of the HE system in Wales on a competitive basis.
- A willingness by the National Assembly to meet reasonable restructuring costs, in the expectation of a return on this investment in the form of future savings or improved service.
- A willingness to develop a recurrent, core, funding stream (alongside those already in place for teaching and research) for strengthening the links between HE and business and the community. Drawing together the various existing but disparate funding initiatives that could be said to be contributing to the Third Mission will not be sufficient. It is essential that this important development is not made at the expense of necessary funding for teaching and research.

a. *A broadly supportive environment.*

More specifically, this would require:

- A willingness by all relevant partners to view expenditure on higher education as an essential investment in the future of Wales.
- A matching determination by all partners to approach with commitment the task of building an HE system that is competitive under modern conditions, and which, through achieving international strength, will thereby be able to fulfil the National Assembly's vision for Wales.

The higher education sector in Wales is already addressing in various ways the issues raised in this paper. But the competitive pressures are increasing at pace. In order to capitalise on the current momentum, and to secure the best possible outcome, time is of the essence in establishing a sense of strategic direction and making the associated investment.

