

Education and Life-Long Learning Committee

HEW Expert Panel on University Funding

HEW would like to thank the National Assembly for inviting it to comment on university funding. We wish to make two main points, one a reflection on the current situation, the other a comment about how universities in Wales can play their full part in delivering the National Assembly's BetterWales Agenda. We would also like to thank the committee for listening to us over the issue of the gap between current funding in England and Wales, and although we do have to comment on this we do not wish to dwell on it nor get bogged down by the details. Our central concern is to talk about what we can do to continue to help Wales improve both its economic performance and its pattern of social exclusion. We passionately believe that universities are central in this, but we also believe that their contribution needs to be properly funded if it is to be effective.

Our first point concerns the current funding situation. The gap between funding per student in Wales compared to England and Scotland remains a core concern for us. We can argue about the data, but a gap there is and it is considerable. We have asked Universities UK (UUK) to estimate the gap for us. Using HEFCW, SHEFC and HEFCE data they state that the gap in funding per student has, over the last five years, averaged about 4%-5% compared to England. The AUT has estimated the gap for 2001-02 with England at 4.2%. Data supplied by HEFCW indicates a gap varying between 1% and 3% over the last four years, adding up to a shortfall in funding of some £19.3 million from 1997 to 2001. The gap with Scotland is far greater with all three estimating it at around 23-24%, adding up to a shortfall of £421.4 million from 1997-2001. We state these figures not to moan or whinge, but because we are completely convinced that, for universities in Wales to be able to support the mission of BetterWales, this gap has to be rectified for reasons which I will explain shortly. While we appreciate that we need to deliver something to the Assembly in return for additional funds, we also are concerned about measures which put more money into initiatives for Higher Education but which do so only on the basis of increased transaction costs for institutions. We term this the "jam jar" approach, whereby funding is distributed through a large number of separate initiatives: we would much prefer a rectification of the basic funding per student.

We would like to address head-on one possibly appealing thought for the Assembly review. This would be to note that Wales, with 5% of the UK's population, teaches 6% of its students. In September 2000 8429 English-domiciled students entered Welsh HEIs, whereas 6262 Welsh-domiciled students went to English universities. Thus at first sight one answer to the

funding gap could be to cut back student numbers by, say 7000, and thus increase the unit of resource. We want to advance five reasons for not going down that road: first, this would mean a significant loss of income to Wales. The 1995 estimate by the PSI was that each student spent £5300 a year (excluding fees). This would mean that a cut of 7000 students would result in a loss of income of some £37.1 million a year to Wales. This compares to the gap with England of £19.3 million over four years. Second, such a cut would run completely counter to the aim of widening participation, since universities would make the reduction by cutting out the applicants with the lowest A level scores, which are precisely those most likely to be from lower socio-economic groups. Thirdly, such a reduction would raise serious questions of the viability of some courses and even institutions, especially given the small size of several universities in Wales. To put the paradox most starkly, the two universities with the most Welsh-speaking students, Bangor and Aberystwyth, are also the two universities most dependent on English students. Fourthly, this proposal assumes that the unit of resource would indeed be increased and that the reduction in student numbers would not lead to a similar reduction in resourcing per student by a subsequent administration. Finally, it would be odd for Wales to cut back on student numbers when its economic strategy depends on skilled graduates, and at the same time as England is increasing student numbers. Remember also that the Government is committed to increasing the participation rate from 33% to 50% within ten years.

This funding gap has meant that HE in Wales has been historically underfunded. We welcome the efforts of the Assembly to try and close this gap (the 2001/02 settlement is a step in the right direction), but we feel that we need to make two points:

- Although we concentrate on the comparison with England, we believe that Scotland is a better comparator given its geography and the size of its universities. The comparison with England is also misleading because the Welsh HEIs also have the costs of bilingual education. In terms of competitiveness, Welsh universities suffer from recruitment problems, and these will get worse if HEFCE continues its policy of allowing universities in England to take 4% over their maximum allowed number: there is a serious danger of students 'trading up' (whereby the most popular English city HEIs take more students) resulting in a shortfall in Welsh universities; note also the significant increase in applications to Scotland this year, following their abolition of tuition fees, compared to a decline in applications to Welsh HE of 3.5% this year. All of this suggests that equal funding with England is the absolute minimum that Welsh HE requires; its market position, the size and geographical spread of its institutions, and the costs of bilingual education would strongly indicate that a higher sum per student is necessary.

- David Blunkett's announcement of additional funding for English universities on 28 November 2000 threatens to open up the gap over the next three years. Blunkett announced nearly £1 billion for universities, linked to a number of initiatives, but none of these, nor the money associated with them, has yet been matched in Wales. These include £170 million for staff pay reforms, including retention, £62 million for the set-up of E-universities, and £170 million for the implementation of the Disability Discrimination Act. The result is that in Scotland core funding per student (in real terms) will grow by 3.5% next year, followed by level funding; in England the figure is a 0.4% increase in funding per student, then an increase of 0.3%, then a year of level funding. In Wales (according to HEFCW) there will be a 0.3% decrease in funding per student, followed by two years of further cuts of 0.3% and 0.4%. This will increase the funding gap, not close it. Furthermore, public funding per student has fallen since the introduction of tuition fees. Despite the promises of the Labour Government that the private component of the tuition fee (paid by the student or their family) would represent additional funding for universities, the evidence shows that the public contribution per student has fallen and will continue to fall. The figures from 1998-2004 show a fall in public funding per student of 8.9%.

Our worry about these historic, and projected, gaps is that it will make it more difficult for Welsh HE to compete for students, research funding, and staff. Staff and students have choices, and they are not going to choose to be in the least well-funded part of the UK university system. One wonders how much damage to Welsh recruitment was done by the recent two-page Guardian article pointing out the size of the funding gap, and the consequent lack of equipment and facilities that this would lead to in Wales.

We know that the Assembly is aware of these issues and we welcome the start that it has made in addressing them. Moreover, HEW wishes to look forward rather than concentrate on our current differences about funding formulae. We want to stress the role that universities have played, and can in the future play, in developing the economy and society of Wales. The headline figures about our current contribution are startling: HE makes about a £1 billion contribution to the Welsh economy, and HE is a major employer (23,000 jobs). In addition, the nature of HE in Wales means that in several regions universities are the predominant local business, and thus there is a regional as well as a national impact.

It is an acknowledged fact that overall the Welsh economy is not as strong as the economies of Scotland and England. GDP per head stands at only around 80% of the UK average. We believe that in addressing this problem universities will have to be central drivers in what is now a new, borderless, knowledge-driven economy. This has been recognised in Scotland where universities are seen as the engine of economic development. Our strong conviction is that universities can play a central role in the regeneration of the Welsh economy; this regeneration requires the cooperation of many partners, one crucial one being HE: without HE

it cannot be achieved. It is now commonly accepted around the world that a strong university sector is a critical underpinning factor in the economic success of regions.

The universities and higher education colleges in Wales are willing and ready to continue to play their part as partners in driving forward Wales' much needed economic regeneration. However, committed additional funding is required if the universities are to realise their full potential in this area. This is the second funding issue I wish to address, and it has already been discussed by Sir William Taylor. Though there can be debate over the exact sum required, it is clear that a large additional sum will be needed to ensure that universities in the UK can compete in what is now an international educational and research market. A report by London Economics for UUK put the gap at £1.4 billion a year for 2004/5 at current prices. The final report of the UUK Funding Options Review Group identifies this gap as £900 million a year for the UK. Assuming the standard pro-rata division according to population, this translates to approximately £45 million a year additional funding by 2004/5 for Welsh HE.

The worst outcome of all would be for the rest of the UK to pump money into HE to fill this funding gap, and for Wales not to do so. It is of course at this point that the existing under-funding of HE in Wales compared to England and Scotland becomes even more significant.

However, perhaps I could end by making a few comments about other funding issues that do concern HEW:

- We completely support the National Assembly's (and the UK Governments) commitment to widening participation, but would point out that this will require additional funds (see the House of Commons Select Committee report of 8th February), and require an inclusive and collaborative approach that stretches beyond higher education alone and which is more sophisticated than the current approach adopted by HEFCW.
- HEW believes that the greatest impediments to widening participation have been the changes introduced in 1998, including the introduction of tuition fees and, especially, the loss of the maintenance grant. All research on this issue indicates that tuition fees, the loss of the maintenance grant, and the introduction of student loans, have made those students who are most debt averse (i.e. those from the lowest socio-economic groups) less willing to enter into HE. We want to see substantive changes in student funding to introduce systems that are fair and transparent, that do not act as a disincentive to students at the point of entry to HE and which will encourage and enable all who can benefit from HE to participate. We welcome the review currently being undertaken by the Minister for Education and Life-Long Learning due to report later this year.
- HEW is strongly committed to improving Equal Opportunities for its workforce. There are

many aspects of this, notably ethnicity and disability, but the one that Government has highlighted most recently has been that of gender. The universities wish to do all we can to ensure equal pay for work of equal value. However this comes at a cost. The Bett Report identified the cost at about £675 million a year, and the English Funding Council has been given an additional £170 million on the baseline (phased over three years) equalling some 2.4% of the wage bill, to begin to address this along with other issues of staff recruitment and retention. We are very concerned that the money has not been passed into the HE budget for Wales, and this adds to our concerns over our ability to attract and retain staff, let alone move forward on the Equal Opportunities agenda. The absence of this money means that Welsh universities either have to appoint less staff or pay them, on average, less. The former leads to a vicious circle whereby teaching loads would have to be higher than in the rest of the UK, with research time thereby constrained, and lower grades in the next RAE as a result. The latter leads to severe retention problems for high quality staff.

- We need to stress the importance of UK-wide equivalence of funding following the Research Assessment Exercise. There is a desperate need to improve the research base in Wales, and we are concerned that this is to be done in a way that matches the methodologies used in Scotland and England and does not reduce funding for teaching. We want a level playing field on the distribution of research resources, and we need this for our best departments to be able to compete with comparable departments in England and Scotland. It is not currently a level playing field.
- HEW welcomes David Blunkett's recent announcement setting out the Government's position on the introduction of top-up fees and would like to make it plain that HEW is unanimous in its opposition to top-up fees which we see as antithetical to a commitment to widening participation.
- We are genuinely concerned about the transaction costs imposed by the increasing division of HE funding into small micro-managed initiatives. These take an enormous amount of staff time and frankly are not the most efficient way of distributing resources.
- HEW is also concerned at one effect of the Committee's enquiry into HE. The HE budget in Wales has had to be a standstill one in advance of the outcome of the enquiry, whilst those of England and Scotland have moved ahead. We are greatly concerned that as the Committee's report will not be completed until November 2001, the HE budget in Wales for 2002-03 will likewise be blighted unless other means are found to inform the Assembly's budget process.
- We would like to finish by stressing that higher education is genuinely an internationally competitive market. We can no longer think of HE in a Welsh or even a UK context. Welsh universities are attracting students, staff and research funds not in competition to

other Welsh universities, but rather other universities throughout the world. It is thus of critical importance that our universities are funded on the same basis as those who are our most direct competitors, namely those in England and Scotland.

Our overall message, then, is that Welsh universities can help deliver the conditions of economic prosperity and social inclusion that are at the heart of the Assembly's agenda. But they operate in a UK context, as well as an international one, and in terms of the competition for students and researchers it is absolutely essential that the two funding gaps are closed. The first relates to the spending per student in Welsh universities as compared to those in England and Scotland. There has been a historic gap, which has recently narrowed, but is now set to widen over the following three years. This simply has to be rectified. However, we think the much more important gap concerns the future basic funding of universities so that they can deliver for Wales skilled graduates, profitable links with industry and a dynamic research base that stimulates trade and enterprise, and contribute to building a more socially-inclusive society. Investment in higher education is essential to ensure Wales' economic success in the new millennium.

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