

## Finance Committee

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Meeting Venue:  
**Committee Room 2 – Senedd**

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Meeting date:  
**17 October 2012**

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Meeting time:  
**09:15**

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Cynulliad  
Cenedlaethol  
Cymru

National  
Assembly for  
Wales



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## Agenda

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**Private briefing (9:15 – 9:30)**

**1. Introductions, apologies and substitutions (9:30 – 9:35)**

**2. Welsh Government draft budget proposals 2013–14 – Evidence from local government (9:35 – 10:30)** (Pages 1 – 12)

FIN(4) 16–12 – Paper 1 – Ceredigion Council  
Gwyn Jones, Director of Finance, Ceredigion County Council

FIN(4) 16–12 – Paper 2 – Wrexham County Borough Council  
Mark Owen, Head of Finance, Wrexham County Borough Council

**Break (10:30 – 10:45)**

**3. Welsh Government draft budget proposals 2013–14 – Evidence from education institutions (10:45 – 11:45)** (Pages 13 – 26)

FIN(4) 16–12 – Paper 3 – Cardiff University  
Professor Hywel Thomas FRS, Pro–Vice–Chancellor (International and Engagement),  
Cardiff University

Dr Sue Hybart, Director of Planning, Cardiff University  
Hugh Jones, Chief Operating Officer, Cardiff University

FIN(4) 16–12 – Paper 4 – Deeside College

David Jones, Principal, Deeside College  
John Graystone, Chief Executive, Colegau Cymru

**4. Papers to note** (Pages 27 – 29)

**5. Motion under Standing Order 17.42 to resolve to exclude the public from the meeting for the following business:**

Item 6.

**6. Consideration of evidence on the Welsh Government draft budget proposals 2013–2014 (11:45 – 12:00)**

## Finance Committee FIN(4) 16-12 - Paper 1

### **Written Evidence provided by Ceredigion County Council to the National Assembly for Wales's Finance Committee on the Welsh Government's 2013/14 Draft Budget**

#### **Introduction**

Ceredigion is one of the largest counties in Wales geographically, covering nearly 1,800sq kilometres. The 78,000 population is concentrated along the Coastal corridor of towns and settlements, with Aberystwyth accommodating around 18,000. Even so, the County is sparsely populated and the whole County is defined as a rural area. The County, similar to other rural areas, is experiencing an ageing population combined with a fall in the number of young people. The Council's net budget for 2012/13 is £128m which is funded via £100m from the Welsh Government and £28m via Council Taxpayers.

#### **Looking at the budget allocations for 2013/14, do you have any concerns from a strategic overarching perspective?**

1. It has been clear for a few years that the economic downturn would have an adverse effect on public sector spending, and as a consequence funding provided by Central Government to the Welsh Government, and subsequently to Local Government, would be reduced. It appears that this reduction in funding could continue for a number of years, and this will inevitably place more pressure on the Welsh Government and Local Government's budgets.
2. The Institute for Fiscal Studies, during a recent presentation at the Welsh Local Government Association's Finance Conference, reported that spending reductions could continue until at least 2016/17, but could last until the end of this decade.
3. The 2012/13 Local Government Settlement for Ceredigion was one where for the second consecutive year the allocation of the Aggregate External Finance (AEF), in cash terms, was negative (-1.0% for 2012/13). This is, of course, before allowing for inflationary impact during a period when the Consumer Price Index ranged from a low of 2.4% (June 2012) to a high of 5.2% (September 2011). So the real term reduction is substantially more.
4. The 2012/13 Welsh Government Revenue Settlement provided an Indicative Allocation for both 2013/14 and 2014/15. Having these early indications helps with medium term financial planning as the AEF represents nearly 80% of the Local Authority's net revenue

expenditure. It's noted, however, that the Welsh Government has not, within its draft budget for 2013/14, provided an Indicative Allocation for 2015/16 due to the 'uncertainties in terms of economic forecasts and UK Government responses'. Whilst those difficulties are appreciated it has to be noted that this also adversely affects Local Authorities' ability to plan for the future.

5. The Welsh Government's draft budget refers to the changes in Welfare Benefits, and to the difficulties in assessing the cumulative impact of the changes. This is also of concern to the Local Authority and it's difficult to quantify the impact of such changes, e.g. possible increase in the number of individuals or families presenting themselves as homeless; potential demand on Social Services, etc.
6. Linked with the welfare reform changes is the demise of Council Tax Benefit (CTB) and the introduction of a new Council Tax Reduction Scheme. Although the details of this scheme are yet to be finalised, it appears that it will result in more people being liable to pay Council Tax than previously, as a large number of existing CTB recipients receive 100% benefit. It could result in every Council Taxpayer being liable to pay up to 20% of the Council Tax chargeable. This will have an adverse effect on the Local Authority due to the reduced funding from the Department of Works and Pensions (the amount of the reduction is not yet known); increased collection costs and the impact of an estimated reduction in collection rates.
7. The reduction in funding provided by the UK Government to Welsh Government and its subsequent re-distribution to Local Government has been even worse as far as Welsh Government's Capital Expenditure allocations are concerned. This is at a time when the need for capital expenditure is as much as ever in order to improve infrastructure, e.g. highways, provide improved facilities and opportunities to reconfigure the way services are delivered, whilst at the same time helping the local economy. It is appreciated that the Welsh Government has considered innovative ways for making better use of the limited capital resources available, e.g. the introduction of the Local Government Borrowing Initiative to ensure that vital highway improvements can be undertaken.
8. The recent announcement of the initial funding for some of the 21<sup>st</sup> Century Schools Programme's projects is also welcomed, as this programme needs to be progressed as soon as possible.
9. It is essential that the impact of new legislation, and its financial implications for Local Authorities, has to be clearly acknowledged by the Welsh Government, and adequate budgetary provision included in the Local Government Revenue Settlement to enable Local Authorities to deliver.

**Looking at the budget allocations for 2013/14, do you have any concerns about any specific areas?**

10. Local Government staff are currently subjected to a third consecutive year of 'pay freezes', and it's difficult to see this being extended to a fourth year. The pay freezes to date have no doubt assisted Local Authorities with their budget setting as employee costs represent a large proportion of an Authority's net budget. A pay award for 2013/14 will therefore have a substantial budgetary impact which will have to be taken into account.
11. In addition to the above, there will also be an additional cost pressure associated with Pensions Auto-Enrolment. All Local Authorities, by May 2013, will have either implemented auto-enrolment or decided to defer implementation until October 2017. There's a large number of local government employees, especially part-time or lower paid employees, who are currently not members of the Local Government Pension Scheme. If a substantial number of these are auto-enrolled, and decide to remain within the pension scheme, the Local Authorities will be faced with a substantial increase in their Employer Contributions to their respective pension schemes.
12. The Welsh Government's requirement in the last two Revenue Settlements to safeguard the level of funding for Schools and Social Services budgets at a minimum level of 1% above the uplift for the Welsh Government's revenue funding allocation from the UK Government has resulted in added pressure on other service budgets which had to take a larger proportion of the reduction in funding. The Schools and Social Services budgets are the two largest budgets and therefore the impact on other budgets is compounded. The need to continue with this safeguard needs to be reviewed.
13. Although there are specific budget pressures across all services, it has nevertheless to be acknowledged that the main service pressures in Ceredigion are within Social Services. This is very much a demand led and growing service due to demographic changes, and an increasing need to spend on Children's services. This can be subject to further pressures depending on the impact of new legislation and whether the estimated cost of that impact is fully funded by Welsh Government.
14. There have been additional costs incurred by Local Authorities in relation to the Carbon Reduction Commitment Scheme which is aimed at encouraging carbon reduction. This could be an area where capital investment is required to implement projects that would reduce carbon emissions and thus help meet the carbon reduction targets. However, as already mentioned, there has recently been a significant reduction in the allocation of capital funding from Welsh Government which effectively hinders the opportunity for investment in this area.

15. The economic downturn and its effect on the local economy has an adverse impact on the generation of income for the Authority, e.g. a substantial reduction in Planning fees income due to the slow-down in the construction industry.
16. For a rural Local Authority like Ceredigion, a reduction in the Local Transport Services Grant, and/or the Bus Services Operators Grant, can have a substantial impact for the residents of Ceredigion. It would therefore be of concern if these grants were reduced.
17. It is noted and appreciated that there will be additional funding of £10m over the next two years to support a programme of vital flood and coastal defence improvements across Wales. This is particularly relevant to Ceredigion following the recent flooding north of Aberystwyth in early June, and the fact that Ceredigion is a coastal Authority. An increase is welcomed but is an extra £4m in 2013/14 and a further £6m in 2014/15 sufficient?
18. Generally, providing services in rural areas, whether it's social care, refuse collection, school transport, etc creates additional cost pressures due to the geographic area to be covered. This needs to be taken into account if additional responsibilities are to be allocated to Local Authorities.
19. Retaining Specific Welsh Government Grants is essential to assist Local Authorities to deliver services and meet targets, e.g. Sustainable Waste Management Grant. It is imperative that these are at least retained at existing levels.
20. It is noted, and appreciated, that the Welsh Government is providing additional funding towards the improvement of the ICT infrastructure, e.g. an additional £10m for each of the next two years to support the Next Generation Broadband Programme. It is imperative that this covers the whole of Wales, especially the rural areas that rely more than ever on good ICT links, and this will help support and sustain the local rural economy.

**What do you think will be the impact of the 2013/14 draft budget proposals on your ability to deliver services and meet the priorities of the Welsh Government?**

21. The Local Authority will endeavour, as it has done to date, to deliver services and meet the Welsh Government priorities even when budgets are reduced.
22. The Authority is already in the process of preparing its budget for 2013/14 based on the Indicative Allocation that was issued as part of the Welsh Government's 2012/13 Revenue Settlement. Having such an

early indication enables the Authority to do so with a degree of confidence, subject to the Final Settlement not materially changing from the Indicative Allocation. It is accepted that the Final Settlement could significantly change as a result of Specific Grants being transferred into the Revenue Support Grant, however such changes are known, and can be planned for, through the sharing of information relating to the work undertaken by the Distribution Sub Group (DSG).

23. The ability to deliver the services may require the Authority to utilise some of its Reserves during the worst Settlement periods to lessen the budgetary impact, however the use of Reserves under such a scenario has to be carefully assessed as it will not be sustainable. Having an awareness of the medium to long-term impact of UK and Welsh Government funding will be part of the assessment process.
24. The Authority, like all other Authorities, will seek to achieve further efficiency savings and cost savings via smarter procurement, joint / collaborative working, etc in order to stay within budget and deliver the required services.
25. The Welsh Government has stated in its draft budget that: “the challenge of maintaining and protecting services is likely to become even greater over the next Spending Review period”.

### **General comments**

26. It is clear that there will be competing demands for budget increases across the various sectors, e.g. Health, Local Government, etc. and difficult decisions will need to be made by all parties. It is imperative that we act and work together to deliver the best outcomes for Wales and where budgets are curtailed that such curtailment is shared by all.
27. Finally, it's noted that the draft budget refers to the Legislative Programme and, in particular, paragraph 14.32 refers to the Housing Bill and states that: “The Bill will contain provisions to enable local authorities to charge a higher rate of council tax on long term empty properties...”. This is somewhat surprising as the closing date for consultation on the proposal to amend the regulations, to give discretionary powers to Local Authorities to levy a higher charge, is 20<sup>th</sup> October 2012. The first question in that consultation paper is: “What are your views on whether the Housing Bill should include a power to allow local authorities in Wales the discretion to charge more than the standard full rate of council tax on long-term empty properties?” It appears that that decision has already been made!

**W Gwyn Jones**

**Director of Finance**



## **Finance Committee**

FIN(4) 16-12 – Paper 2

### **Written Evidence by Wrexham County Borough Council to the Finance Committee of the National Assembly for Wales on the Welsh Government Budget 2013/14**

#### **Introduction and Purpose**

1. The Finance Committee of the National Assembly for Wales invited Wrexham County Borough Council to provide comments on the Draft Budget for 2013/14. Given the timing of the request, it has been possible to undertake a preliminary review of the budget documents published on 2 October 2012. This paper provides observations on the proposals and thanks the Committee for the opportunity to provide input to the budget process.
2. Wrexham is located inland to the north east corner of Wales. It has a population of about 135,000, covers 505 sq kilometres and has a net budget for 2012/13 of £211m. It is bordered by Flintshire to the north west, Powys to the south and England to the east. The area has strong socio-economic links with Cheshire and Merseyside. The National Statistics area classification of the local authority is: Manufacturing Towns. Wrexham is the principal town in the authority, with approximately half of the population living either within the town of Wrexham or its surrounding conurbation of urban villages. The remainder of the area is rural. The authority has a strong manufacturing employment sector with Wrexham Industrial Park, one of the United Kingdom's largest industrial parks, being home to many manufacturing and technology businesses. Glyndwr University, formerly North East Wales Institute of Higher Education (NEWI), is also based in Wrexham, as is Wrexham Maelor Hospital, the area's general hospital.

#### **Budget Allocations – Strategic Overarching Concerns**

3. The level of information provided for forward planning purposes is beneficial and improves the management of the significant challenges which all levels

of government are facing (recently outlined in Local Government Expenditure in Wales, Recent Trends and future Pressures – published by the Institute of Fiscal Studies). It is noted that many of the indicative allocations for 2013/14 have been maintained and this is greatly appreciated. To have to make a major change in the Authority's budget plans for next year at this stage would have been extremely difficult given the other pressures facing the Council. It is noted that the "central services and administration" departmental allocation for 2013/14 has reduced by 3.9%. Such a reduction would be expected in this financial climate and it is surprising that it increases in 2014/15 (table 8.1, page 32).

4. The Council are finding the severe reductions in capital extremely hard to cope with (page 7, paragraph 2.6). It is resulting in a constant scaling back and delay in the delivery of the capital programme, much of which is focussed on the economy and children's services.
5. The draft budget does not appear to take account of inflationary increases which often run at a higher level for council services e.g. waste, energy and care fees. One of the aspects which offset this during the past couple of years is the level of national pay restraint and this will need to be extended, particularly for teaching staff, given the relative scale of these budgets.
6. The Council has placed a major emphasis on making savings and delivering efficiencies. It is therefore essential that any new central government legislation and policy changes are supported by adequate resources to enable them to be implemented.
7. The Council have major concerns around the implications of the welfare changes and it is noted that the Welsh Government recognises them as a "significant challenge" (page 7, paragraph 2.3 and page 27, paragraph 6.12). It is critical that Welsh Government and Treasury agree a fair basis for the amount of funding to be transferred to Wales in respect of council tax benefit as, based on the current understanding of the situation, Welsh claimants could be at more of a financial disadvantage than those in other areas.

8. Local Government works closely with Health and the financial challenges facing Health result in a significant knock on risk to the Council's Budget particularly in the areas of adult and children's social care.

#### **Budget Allocations – Specific Areas of Concern**

9. Following on from the previous paragraph, the Council are under pressure in the current year in the adult and children's social care services. This is driven by demography changes and demand is increasing at a time when Health is trying harder to pull back from joint funding arrangements.
10. The income received for planning applications and industrial rentals are currently contributing to an overspend position within the Council. The more that Welsh Government can work with the Authority following the funding of the Wrexham Industrial Estate link road and also to further improve rail connections, the more these difficulties can be offset.
11. School building capital grant reductions have put major pressures on the Council and are resulting in the programme length being extended now the Council has to find 50% of the costs. The limited potential for the sale of assets in the current economic climate to raise capital receipts is hindering the raising of match funding required at a local level.
12. One of the Council's priority areas is sustainability and therefore Section 7 of the Budget is of particular interest. However, there is no explicit mention of any funding being allocated to the "Green Deal" initiative.
13. Injecting some pace into the discussions on the Local Authority Housing Subsidy System could ensure resources being available to improve the public sector housing stock and will help generate employment (page 14, paragraph 4.1).
14. Concerns are being generated locally by the reductions and changes anticipated in the Budget in respect of local bus services. The "Delivery Partner" section mentions a move to more regionalised arrangements but is not explicit about the reductions (page 50, paragraph 10.31).

15. The amount allocated in the Budget to regulation and inspection remains fairly constant over a three year period e.g. Auditor General for Wales and the Ombudsman remain at £4.7m and £4m respectively. Given the radical changes in England, it would be expected that there could be some further efficiency savings generated within these areas.

### Expectations, Commitments and Priorities

16. The continued protection of schools and social services as part of the guidance associated with the Welsh Government budget is having a detrimental effect on other services provided by the Council. These budgets represent such a high proportion of the Council's spending (£129m ie 61%) that stipulating annual increases is unsustainable in the current financial climate.
17. The Council supports the specific targeted funding contained within the pupil deprivation grant and notes it will continue at £20m until 2014/15 (page 11, paragraph 3.4).
18. The Council is very supportive of the continuation of the £33m support for Learning Disability Resettlement Grant (page 41, paragraph 9.23) and its inclusion in the Local Government Revenue Support Grant.
19. The Council has found that the Outcome Agreement regime has been a way of driving performance in line with the Programme for Government. It is noted that this resource continues into the future (page 48, paragraph 10.15).
20. New areas of responsibility through the introduction of policies or legislation require funding to accompany them. This must be assessed and provided for as part of Welsh Government's legislative programme. It is equally important to consider the impact of the withdrawal of funding in advance ie the removal of specific grants.

21. The approach taken by Welsh Government to develop a Wales Infrastructure Plan is supported (page 4, paragraph 1.4). It is important that this is described in a manner which does not raise expectations beyond what is reasonably deliverable i.e. it should be realistic and not try to show that more is happening than is prudent.
22. The provision of additional £175m capital investment compared to £129m for current year is a positive statement for delivering in priority areas (page 5, paragraph 1.5). The Council are particularly supportive of the £13m flying start for delivery of additional childcare facilities (page 17, paragraph 4.10).

### Conclusion

23. One aspect welcomed is the early provision of information to assist with financial planning at the local level. An example of this is the statement that Welsh Government aims to issue indicative grant funding levels in December (page 42, paragraph 9.32).
24. It is pleasing to see evidence that Welsh Government have listened and acted on the feedback received during earlier consultation processes e.g. providing a greater level of detail on Invest-to-Save (page 24, paragraph 5.29).
25. It remains difficult to gain a clear insight into how the proposed Budget will impact on local government at this stage and any further improvement in this respect would be helpful although it is recognised that the Provisional Local Government Capital and Revenue Settlement is usually published quickly following on from the Welsh Government Budget (eg this year on 16 October 2012).
26. The different styles used in the presentation of the Draft 2013/14 Budget are very good and certainly improve the accessibility of the main published document i.e. "Our Budget" and "Your Money".

Mark S Owen  
Head of Finance

Wrexham County Borough Council

## NATIONAL ASSEMBLY FOR WALES FINANCE COMMITTEE 17 OCTOBER 2012: WRITTEN EVIDENCE FROM CARDIFF UNIVERSITY

### 1. **Looking at the budget allocations for 2013–14, do you have any concerns from a strategic, overarching perspective?**

We recognise that the Welsh Government is working with a very challenging settlement given the severe budget cuts and the likelihood that public expenditure will continue to be constrained. The focus of this budget – ensuring growth in the economy – is entirely appropriate but it is not certain that this can be achieved without sufficient investment in higher education. Investment in higher education is critical for a buoyant economy in Wales and there is great potential at this point to drive future economic growth and the creation of opportunities and jobs through prioritising such investment.

Higher education is a key driver of long-term economic growth. Research by the OECD for instance identifies that, while a range of factors may have a short-run impact, long-run economic growth is above all determined by two factors which are strongly associated with universities: knowledge accumulation and technological progress.<sup>i</sup> Similarly the evidence points to the fact that countries with high levels of innovation on average tend to have a stronger track record of investment in higher education and higher proportions of graduates in their populations.<sup>ii</sup>

Higher education contributes to the economy via, for example, the supply of graduates and postgraduates and through research and development expenditure. Universities also have a significant direct impact on the economy in Wales. They are major employers in their own right with a total turnover of over £1.2bn. Based purely on patterns of expenditure, for every £100m that is invested in higher education £102m will accrue to industries located in Wales (a comparatively high ‘multiplier effect’). Universities also play a significant role in leveraging additional resource into Wales. In 2007/8 for instance the university sector gained £238m of export earnings for Wales and generated an additional direct boost to the Welsh economy of more than £90m a year from attracting students from outside Wales.

Funding for higher education is an investment that leads to increased income generation throughout the economy. Higher education also contributes significantly to the Welsh Government’s social justice agenda. Access to a university education has always been an important springboard to better living standards in Wales for individuals and families. For many people in Wales a degree has helped to advance their careers, broaden their horizons and raise their aspirations. The expansion of higher learning is one of the most important ways in which social mobility can be advanced.

**2. Looking at the budget allocations for 2013–14, do you have any concerns about specific areas?**

The fact that there is no planned increase in the Higher education budget in 2013–14 (nor is there an increase planned for 2014–15) is a concern especially given that the student loan budget is increasing in both of these years. An increasing student loan budget means that there is less funding for other aspects of high education such as research, postgraduate studies, and innovation. Also, the student loan money doesn't necessarily benefit Welsh higher education institutions as students may study anywhere in the UK.

We have concerns in respect of full-time undergraduates where there are risks associated with:

- The reduction of the recurrent grant for teaching which relate specifically to higher-cost subjects where the cost exceeds the fee (e.g. Science, Technology, Engineering, Medicine, Dentistry);
- The potential loss of students achieving grades ABB or higher at A-Level due to the new English policy of unrestrained recruitment of students with higher grades at A-Level;
- Potential under-recruitment across the sector due to strategic reallocation and/or changes in recruitment patterns associated with the new funding and student support mechanisms in Wales and the UK.

The lack of any capital budget is also concerning as this will inhibit improvements to infrastructure which will impact on the student experience, on the ability to expand research activity, as well as on the Welsh sector's ability to compete. For example, in order to be able to counter the English policy of unrestrained recruitment of students achieving grades ABB or higher at A-Level, Welsh HEIs need to be able to offer excellent facilities and an excellent quality of education.

These concerns are compounded by the historical funding gap between Wales and England (and Scotland) which means that the Welsh HE sector is already at a disadvantage. HEFCW's most recent report identified a funding gap with England of up to £69m and rising in 2007/08 based on GIA per fundable FTE. The Learned Society, based on HEFCW's data, estimated the negative funding gap with England per student had grown from £20 to £900 per student between 2000/01 and 2008/09 and the cumulative gap between 2000 and 2009 was £361m (and more for Scotland).

There is a danger that insufficient investment in higher education now, on top of the historical funding gap, will begin to damage the competitiveness of the Welsh higher education sector and hence its ability to deliver for Wales.

Whilst it is essential that Welsh HEIs deliver for Wales, it must also be remembered that Welsh HEIs operate within a UK sector and need to be able to compete at a UK level for research funds (both public and private), industry contacts and student recruitment (both home and international). A lack of investment in higher education, especially in comparison to other UK countries, will mean that Welsh HEIs are less able to compete with other UK HEIs. This will impact adversely on their ability to bring sources of funding into Wales and also to bring spending power into Wales.

**3. What do you think will be the impact of the 2013–14 draft budget proposals on your ability to deliver services and meet the priorities of the Welsh Government?**

Cardiff University will continue to deliver its core services and will continue to contribute to the priorities of the Welsh Government. However, further investment in higher education now would enable further contribution to these priorities and would also enable the University to expand, support and drive forward its activities in areas such as research, postgraduate studies, knowledge transfer and the provision of expensive subjects. The expansion of these activities would have a significant long-term positive effect on the economy.

Research

Cardiff University is the most research-intensive University in Wales. Its research already contributes significantly to growing the Welsh economy and, given the investment to enable expansion, has the potential to contribute even further.

This budget, however, risks the HEFCW funding for research (QR) being diminished when it is essential that this fund is at the very least maintained and, ideally, increased. QR funding enables HEIs to invest in improving and updating their research activities through general investment in research infrastructure and training of new researchers as well as by identifying and investing in important new and emerging areas of work. QR funding also enables HEIs to apply for Research Council funding.

Wales needs an increase in research activity as this will lead to an increase in the exploitation of research and knowledge transfer. Wales needs greater levels of entrepreneurship and innovation and Welsh Universities can be the catalysts for the growth of the Welsh economy through spin-out companies, innovation partnerships with locally-based businesses and the drawing in of expertise world-wide.

The Welsh Government's investment in Ser Cymru will go some way towards increasing research activity by bringing in world-leading researchers and this will increase innovation and knowledge transfer. However, increased research activity will necessitate investment in the research environment. World-leading academics require fit for purpose infrastructure – state of the art equipment and additional and

appropriate space. Without adequate funding for research infrastructure there is a danger that the Ser Cymru programme might not be as successful as it could be. Thus it is essential that HEFCW QR funding for research is sustained.

#### Postgraduate Studies

Wales also needs to invest in funding for the highest level of skills development, and particularly postgraduate research students (PGRs). The Global Entrepreneurship Monitor Wales (2007) Report showed that those with the highest qualifications were more likely to be entrepreneurially active, and investment to encourage the growth of PGR students in top rated research departments, together with proper funding of their training and development, will deliver not only the new generation of academics and potential research stars, but Wales' next generation of cutting edge entrepreneurs.

The Welsh Government's current programmes such as the Young Recruits Programme and Pathways to Apprenticeships have merit and will go some way to improving job prospects but higher level skills development and initiatives that encourage University-Industry collaboration will lead to more innovation and will create more opportunities and more jobs in the long term.

#### Science, Technology and Engineering Provision

The importance of Science, Technology, Engineering and Maths (STEM) graduates in society has long been recognised in terms of the benefits that these disciplines bring to the economy, standard of living and well-being. The current HEFCW funding model means that those institutions that offer courses predominantly in the lower-cost subject areas will benefit more from the increased fee income than those who offer more higher-cost, STEM subjects. Institutions with more expensive subjects will be dependent on continued government funding for teaching to sustain excellent provision in the higher-cost and priority subject areas. Without adequate funding for these expensive areas, HEIs will not be able to afford to run these courses and Wales cannot afford to lose its STEM students and graduates. A strategy for the sustainable provision of these subjects is therefore vital as any damage from cuts in funding will not be easily reversed.

#### Medicine and Dentistry Teaching

Cardiff University has the only Medical and Dental Schools in Wales which, together with the University's other health-related Schools with an all-Wales remit, such as Optometry and Pharmacy, contribute to the social well-being of Wales by providing the next generation of health professionals for 21<sup>st</sup> Century healthcare.

The cost of teaching Medicine and Dentistry far exceeds the new higher fee of £9,000 per annum and without sustained and adequate public funding both the Medical and the Dental School will quickly

cease to be viable. Wales certainly cannot afford to lose its only Schools of Medicine and Dentistry and associated healthcare students and graduates – the adverse impact on healthcare in Wales would be significant. It is vital therefore that there is an explicit commitment to sustaining funding for these very high cost subjects in future years to ensure continued provision in these areas.

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<sup>i</sup> OECD. “The OECD Innovation Strategy - Getting a head start on tomorrow.” 2010.

<sup>ii</sup> Universities UK. “Higher Education in Focus: Driving Economic Growth - Higher Education a core strategic asset to the UK.” 2011.

Coleg Glannau Dyfrdwy  
Coleg Lllysfasi  
Coleg Llaneurgain  
Hyfforddiant Wreccsam



Deeside College  
Lllysfasi College  
Northop College  
Wrexham Training

**Finance Committee**  
FIN(4) 16-12 - Paper 4

# Budget allocations

## Finance Committee

Submission from Deeside College with ColegauCymru



October 2012

## Introduction

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1. Deeside College welcomes the opportunity to provide oral evidence to the Finance Committee on 17 October 2012, and does so with the support of ColegauCymru.
2. Deeside College is one of the largest and most successful colleges in Wales with an excellent Estyn profile in its delivery of further education and work-based learning. In 2007 it was the first college in the UK to secure overall Grade 1s for all of its provision, and has secured the best college Estyn inspection report in 2012. It has achieved this in parallel with consistently strong financial performance, which it has used to invest in the college's infrastructure, and to support two mergers. Deeside College is scheduled to merge with Yale College in August 2013.
3. ColegauCymru represents the 17 further education (FE) colleges and two FE institutions in Wales<sup>1</sup>. It works closely with Welsh Government to shape and support policy implementation. Its mature and proactive role is recognised within the recently published White Paper on Further and Higher Education.
4. This paper has been drawn up by Deeside College with ColegauCymru in response to the budget allocations for 2013-14. The first part of the paper reflects the views of ColegauCymru as set out in a letter to Jocelyn Davies AM, chair of the Finance Committee on 21 September 2012. These views have been enhanced by the experience of Deeside College, independently judged to be one of the most successful colleges in Wales.

### Some general observations

5. ColegauCymru's overall view is that despite the extremely testing economic outlook we have the opportunity to rebuild our industrial future based on an ever more highly skilled workforce with learning providers responding to the needs of industry and employers generally. In our view there are a number of key factors that the Budget must address.

### Sustaining investment in quality learning outputs

6. This key goal is something that is rightly reflected in the Minister for Education and Skills Priorities Letter for 2012/13 in which he makes it an imperative for colleges to up-skill their learners to levels 3 and above. This priority has been supported by allocations to colleges in 2012/13 of a cash increase of 2.5% with projected cash uplift in 2013/14 of 1%. This shows the Minister's commitment to investment in sectors that deliver the key targets set out in the *Programme for Government* in 2011.

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<sup>1</sup> In this paper the term 'FE college' or 'College' is used to cover the 17 FE colleges and the two FE institutions.

7. Colleges have responded to this investment with an increasing quality profile year on year. Our response to the White Paper on Further and Higher Education points out

*“Estyn’s Chief Inspector has regularly commented positively on the performance of FE colleges in her annual reports. The Department for Education and Skills (DfES) annual Learner Outcomes Reports for 2010/11 showed that 90% of students completed their courses in FE colleges and of these 90% achieved their qualifications – making an overall success rate of 81%. This can be compared with a 40% successful completion in 2000/01. Colleges are not complacent however at this remarkable progress and are continually seeking to raise their game”. Investment in colleges bears a clear return on quality learning.*

### **Investment in skills in the global ‘Race to the Top’**

8. Sustaining this public investment in skills in the medium to long term is crucial. Vocational education delivered by colleges makes a major contribution to meeting the aims of Wales’s ambitious skills agenda.
9. The need to develop a skills base for a renewed emphasis on industrial and construction industry growth is supported by a clear evidence base on projected labour demand in Wales up to 2020. According to the latest estimates from the UK Commission on Employment and Skills’ *Working Futures* report: “Wales is the only nation/region [in the UK] where skilled trades occupations are expected to grow in employment, and not decline” and employment growth in Wales is projected to be: “above the UK average...for the primary sector and utilities, construction, and trade, accommodation and transport”.<sup>2</sup> This gives a particular impetus to investment focused on enhancing Wales’ crucial vocational skills base.
10. This impetus is supported by some significant shifts that may be occurring in the wider global economy. *The Economist* on 21 April 2012 devoted a special issue to what it has called the coming ‘third industrial revolution’ for manufacturing and innovation. It reported that: “the wheel is almost coming full circle”, with some highly skilled manufacturing jobs coming back to western nations from Asia in the coming decade as a result of higher labour and energy costs and the added transportation expenditure in getting products back to Western markets.
11. Wales needs a skilled workforce to ensure that we can make the most of any such shift, in any ‘race to the top’ of the value chain in products and services. This will require a strong cadre of skilled and adaptable people with *intermediate and higher level skills*, in line with the Minister’s FE Priorities Letter.

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<sup>2</sup> Welsh Government synopsis of UKCES *Working Futures 2010-2020* report, December 2011, p.1 & 5.

12. Colleges are very well positioned to respond to this intermediate and high level skills agenda as they deliver the range of programmes from entry level basic skills through to degree level provision. As such, colleges are engines of both employability and progression - boosting the productivity of Wales's labour force.

### **Investment in powerful economic players who engage directly with employers**

13. Colleges in Wales are pivotal economic players in their own right. The Welsh Government commissioned Cardiff University<sup>3</sup> to investigate the economic impact of the *purchasing activity* of FE institutions and their staff and students. Scottish Executive-commissioned research showed the return on investment in *qualifications*. Combining these two indicators (and assuming that FE colleges in Wales are broadly similar to FE colleges in Scotland), they indicate that FE colleges in Wales contribute an estimated £1.4bn to the Welsh economy; a figure close to that generated by HE institutions. This figure will have increased substantially since the date of the study.
14. In addition to the direct economic contributions brought about by an investment in FE, studies have also demonstrated additional benefits to learners. For example, a Canadian study has shown that students benefit from increased earnings and improved lifestyles; taxpayers benefit from an enlarged economy and lower social costs; and society as a whole benefits from increased job and investment opportunities, higher business revenues, greater availability of public funds and an eased tax burden.<sup>4</sup> The productivity gains from colleges' upskilling and their direct work with employers add a massive additional benefit to the economy that is more difficult to quantify - but is even more important than the direct economic output of colleges.
15. Work with business has remained a central priority for the sector over many years. This was reconfirmed in the Education and Skills Minister's Priorities Letter<sup>5</sup> which urged that colleges become the first port of call for employers. ColegauCymru has estimated that colleges engage with over 25,000 businesses every year to work to develop a suite of products designed to meet the needs of private and public sector employers in Wales. This ranges from work on apprenticeships (all levels), bespoke training programme for staff, and work on product innovation and general advice on the future skill needs of their workforce. Colleges are constantly redoubling efforts to ensure that their work with business is nimble, at the cutting edge and suited to individual employer needs. *This is a central goal for all colleges in Wales.*

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<sup>3</sup> Welsh Government (January 2007) The Impact of Further Education Institutions on the Economy of Wales.

<sup>4</sup> Association of Canadian Community Colleges (2006) The Economic Contribution of Canada's Community Colleges and Technical Institutes: An Analysis of Investment Effectiveness and Economic Growth. Quoted in Building a Better Scotland, Strategic Spending Review Submission 2007, Association of Scotland's Colleges, 2007.

<sup>5</sup> Priorities For The Further Education Sector: 2012/13 – 2013/14. Letter to Principals from Leighton Andrews, Minister for Education and Skills, May 2012

## Key questions

- (i) **Looking at the budget allocations for 2013-14, do you have any concerns from a strategic overarching perspective?**
- (ii) **Looking at the budget allocations for 2013-14, do you have any concerns about any specific areas?**

16. The draft budget for 2013-14 indicates that further education and school sixth forms will be allocated £455.7m. It is not yet clear what proportion will be allocated to FE colleges.

17. As pointed out in para 6 above, the funding allocations letter sent to colleges promised a 1% cash increase in 2013/14<sup>6</sup>. Colleges are planning on the basis that this pledge will be honoured. This is not a real terms increase. Inflation in August 2012 was 2.5% and colleges will have to put in place further efficiencies.

18. In the current year 2012/13 (the college financial year runs from August to July), allocations are as follows: £285.7m recurrent funding, £8.7m Pathways to Apprenticeship and £17.5m Adult Skills – an overall total of £311.9m. It is essential that the quantum is maintained from 2013 onwards, even if there are changes of priority within the separate funding priority streams.

19. For Deeside College the allocations in 2012/13 are £19.5m for recurrent funding, £0.7m for PTA, and £1.3m for Adult Skills - a total of £21.5m. In addition, Deeside College has secured a further £14.5m from other sources.

20. Colleges also receive Welsh Government funding for the delivery of work-based learning. This is through competitive bidding and funding received is through a contract and not a grant. The total amount received by colleges in 2009/10 (the latest figures) was £28m. Deeside College received £5.7m.

21. The Table below shows the breakdown of income and expenditure for FE colleges in 2009/10 (the latest figures). Colleges on average attract around 20% on average on top of Welsh Government funding. Over the past ten years at today's prices colleges have generated around £1 billion. This income is generated through full cost recovery courses for business, delivery of projects, consultancy, international recruitment, restaurants and canteens, farm shops, leisure facilities and other sources.

22. It is important that FE colleges continue to have the flexibility to generate additional income. Surpluses are used to invest in buildings and equipment, improve facilities, and subsidise provision within the college. For example, Deeside College, which generate around 23% of its income from external sources, and sets an annual surplus target of 3% of income. The latter point is consistent with many other colleges across the UK. Over the past eight

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<sup>6</sup> Further Education Funding 2012/13. Letter sent to principals by Andrew Clark, DfES, 24 January 2012.

years this has been achieved, with an average surplus of approximately 4% actually being achieved, amounting to a total of £8.5m over the period. This has been invested; along with capital grants and borrowing to significantly improve the estate and infrastructure across all of the colleges' campuses across North East Wales.

### FE Sector Income and Expenditure 2009/10

<b>Income</b>	<b>£000</b>	<b>% of total</b>
WG funding (incl WBL)	342,703	79.5
Tuition fees and education contracts	46,715	10.8
Other income	40,980	9.5
Investment income	557	0.1
<b>Total income</b>	<b>430,956</b>	<b>100.0</b>
<b>Expenditure</b>		
Staff	271,431	64.3
Other operating expenses	128,774	30.5
Depreciation	20,395	4.8
Interest payable	1,270	0.3
<b>Total Expenditure</b>	<b>421,870</b>	<b>100</b>

23. Colleges have been making efficiencies. Eleven mergers involving colleges have taken place or are currently underway. A ColegauCymru survey in 2011 stated that the mergers that had then taken place had saved an estimated £500,000 per college per year, mainly in management, back office functions and systems. The same survey showed that colleges had made average savings of around £160,000 per college per year from shared services.<sup>7</sup> Deeside College has maintained its sector-leading financial performance despite merging with the Welsh College of Horticulture (2009) and Coleg Llysfasi (2010), as both of were inherited with financial deficits and negative future projections.
24. This highlights the benefits that can be achieved by effective and strategic reorganisation of the public service infrastructure in Wales – savings have been made, no jobs have been lost, courses and places for learners have been expanded with more money spent on the front-line, and investment has taken place. Organisations and sectors that embrace change in this way need to be recognised and future funding must not be used to penalise effectively managed organisations.

<sup>7</sup> Further Education Colleges in Wales: Shared Services. Paper submitted to Welsh Government's FE/HE Policy Group, ColegauCymru Jan 2011.

25. Colleges are currently engaged in negotiations with the joint trade unions to introduce a common contract. The Minister for Education and Skills has stated that any new common contract should be cost neutral for the FE sector as a whole. Some colleges will inevitably be winners and others losers as staff costs increase in some and decrease in others. It is likely that any changes will be phased in over at least a three year period to soften any impact. A modern, dynamic FE sector in Wales needs modern, dynamic contracts of employment. This will secure jobs, improve services to learners, and must play a key role in improving Wales's economic performance.
26. Colleges are also likely to face increased costs as a result of increases in employers' contributions to the teachers' pension scheme and the various local government pension schemes. In the latter case, employers' contributions can already be well over 20% of salaries. Alongside this, planning assumptions for future years do assume continued pay restraints within the Public Sector.
27. The White Paper on Further and Higher Education supports colleges having increased financial flexibility within the overall context of Welsh Government policies. Colleges have welcomed the three year funding cycle for colleges which has run from 2011/12 to 2013/14. This has improved college planning and ability to make longer term decisions in the interests of learners. Previously allocations to each college often varied from year to year with little time to plan effectively. **We would urge the Welsh Government to continue with a further three year plan to follow on after 2013/14.**
28. There is a major requirement for capital funding so that colleges can bring their buildings up to a 21<sup>st</sup> century standard. It is recognised that the bulk of the investment is concentrating on schools but colleges have put forward a wide range of ambitious proposals for capital projects which will need to be funded in the long term.

**(iii) What do you think will be the impact of the 2013-14 draft budget proposals on your ability to deliver services and meet the priorities of the Welsh Government?**

29. The letter from the Education Minister set out four key priorities for the sector in 2012/13 and 2013/14.<sup>8</sup> These were
- learner progression and support: maximise progression routes to level 3 and above, training and employment
  - raising standards and achievement: deliver improvements in standards and performance, particularly learners' literacy and numeracy

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<sup>8</sup> Op.cit. May 2012

- employer engagement and enterprise: effective engagement with employers and developing an enterprise culture
  - developing Welsh Medium provision: increase availability and take-up of Welsh Medium/bilingual learning.
30. Colleges are responding positively to these key priorities. Colleges will seek to build on their level 3 offer for learners. They will continue to raise standards. Currently, on average 90% of learners complete their courses and 90% achieve their qualifications. Colleges will work hard to increase the overall successful completion of 81%. Deeside College's current performance is 86%.
31. Employer engagement for colleges is core business. Colleges will further develop their links with local employers and seek to be their first port of call. Colleges have welcomed the investment in colleges of bilingual champions and recognise the long term challenge of increasing opportunities for learners who wish to study thorough the medium of Welsh or bilingually. They recognise that developing staff who are competent to teach through the medium of Welsh cannot be achieved overnight and will require sustained investment for the foreseeable future.
32. It is likely that once the planned mergers have been completed by August 2013, there will be a focus away from structures towards a greater concentration on the enhancement of teaching and learning.

**(iv) Further assistance to the committee**

33. In summary we welcome the continued investment in skills in Wales. We recognise the tough financial climate within which colleges are operating and this paper points to a few pressure points for colleges, such as the need to make efficiency savings in the light of a below inflation funding increases.

34. Sustained investment in FE colleges provides the foundation of an industrial recovery in Wales and a skilled and increasingly productive labour force. Deeside College and ColegauCymru will be pleased to provide the committee with any further written evidence in relation to the budget or in relation to colleges' wider contribution to the general economic or educational future of Wales.

## Finance Committee

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Meeting Venue: **Committee Room 2 – Senedd**

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Meeting date: **Thursday, 11 October 2012**

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Meeting time: **09:15 – 13:00**

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Cynulliad  
Cenedlaethol  
Cymru

National  
Assembly for  
Wales



This meeting can be viewed on Senedd TV at:

[http://www.senedd.tv/archiveplayer.jsf?v=en\\_300000\\_11\\_10\\_2012&t=0&l=en](http://www.senedd.tv/archiveplayer.jsf?v=en_300000_11_10_2012&t=0&l=en)

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### Concise Minutes:

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#### Assembly Members:

**Jocelyn Davies (Chair)**  
**Peter Black**  
**Christine Chapman**  
**Paul Davies**  
**Mike Hedges**  
**Ann Jones**  
**Julie Morgan**  
**Ieuan Wyn Jones**

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#### Witnesses:

**Goodall, Aneurin Bevan Health Board**  
**Lang, Betsi Cadwaladr University Health Board**  
**Karen Miles, Hywel Dda Local Health Board**  
**Jane Hutt**  
**Jeff Andrews, Welsh Government**  
**Andrew Jeffreys, Welsh Government**  
**Salway, Welsh Government**

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#### Committee Staff:

**Gareth Price (Clerk)**  
**Daniel Collier (Deputy Clerk)**  
**Martin Jennings (Researcher)**  
**Eleanor Roy (Researcher)**

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### **1. Introductions, apologies and substitutions**

1.1 The Chair welcomed Members and member of the public to the meeting.

1.2 Paul Davies declared an interest as his wife was employed by Hywell Dda Local Health Board.

1.3 Christine Chapman declared an interest as her husband had undertaken work for Aneurin Bevan Local Health Board.

## **2. Welsh Government draft budget proposals for 2013–14 – Evidence from Local Health Boards**

2.1 The Chair welcomed Dr Andrew Goodall, Chief Executive, Aneurin Bevan Local Health Board; Geoff Lang, Executive Director of Primary Care, Community and Mental Health Services, Betsi Cadwalader Local Health Board; and Karen Miles, Director of Finance and Economic Reform, Hywell Dda Local Health Board.

2.2 The Members questioned the witnesses.

### **Action point:**

Dr Andrew Goodall agreed to provide:

- A note quantifying the cost of unused estate in the NHS including the scale of risk of non-compliance issues around the estate.

2.3 The Committee agreed to write to the NHS Confederation regarding shared services across the NHS.

## **3. Motion under Standing Order 17.42 to resolve to exclude the public from the meeting for the following business:**

Items 4 and 7.

## **4. Consideration of draft report on the Assembly Commission draft budget 2013–14**

4.1 The Committee commented on its draft report on the Assembly Commission draft budget 2013–14.

4.2 The Committee agreed to format the amended report as a letter to the Minister for Finance, which would be published shortly.

## **5. Welsh Government draft budget proposals for 2013–14 – Evidence from Welsh Government**

5.1 The Committee welcomed Jane Hutt, Minister for Finance and Leader of the House; Jo Salway, Head of Strategic Budgeting, Welsh Government; Andrew Jeffreys, Head of Strategic Capital Investment, Welsh Government; and Jeff Andrews, Specialist Policy Adviser, Welsh Government.

5.2 The Committee scrutinised the Minister.

### **Action points:**

The Minister agreed to provide:

- Budgets which have been protected in your proposals and further information on measures being taken by the Welsh Government to consider preventative spending to reduce the demand on public services.
- Further information outlining the full directory of projects which have been funded through the Invest-to-Save programme.

## **6. Papers to note**

6.1 The Committee noted the minutes of the previous meeting.

## **7. Consideration of evidence on Welsh Government draft budget proposals for 2013–14**

7.1 The Committee discussed the evidence on the Welsh Government's draft budget proposals for 2013–14.