

1. About Higher Education Wales

- 1.1. Higher Education Wales (HEW) represents the interests of universities in Wales and is a National Council of Universities UK. HEW's Governing Council consists of the Vice-Chancellors of all the universities in Wales and the Director of the Open University in Wales.

2. Introduction

- 2.1. We welcome the Finance Committee of the National Assembly for Wales' inquiry into the funding of higher education and provide the following comments in response to the call for evidence. The Consultation Letter outlines four specific areas of consultation which form the headings of our response below. The overarching questions, identified on pages 1 and 2 of the Consultation Letter, have been incorporated alongside the questions outlined in the appendix under each heading. Before answering the specific questions, however, we make a number of general comments about the unique contribution of universities to the Welsh economy and society and the importance of higher education (HE) funding. Further comments are contained in HEW's response to call for evidence on the Welsh Government Draft Budget proposals 2014-15, submitted to the Finance Committee on 13 September 2013.¹

3. General comments

- 3.1. We recognise that with the current budgetary settlements the Welsh Government will have challenging decisions to make about where to prioritise its funding, and this may become more challenging in the future. In weighing the requirements and importance of higher education to both the Welsh economy and the people of Wales the following factors should be considered in particular.
- 3.2. Universities in Wales are central to its economic future and to achieving the Welsh Government's 'over-riding priorities' of jobs and the economy, as identified in its Programme for Government:

¹ Published on-line at: <http://www.senedd.assemblywales.org/mglIssueHistoryHome.aspx?IId=6470>

- Universities are major suppliers of the skilled workforce in Wales. More than 10,000 students from Welsh universities entered employment in Wales within six months of leaving in 2011/12 (i.e. around 62% of the 16,200 known to have entered employment across the UK).²
- Universities are major employers in their own right with over 16,000 full time members of staff. After taking into account the ‘knock-on’ effects of jobs being created in other industries linked to Welsh universities, recent research shows that the total employment generated in Wales is just under 39,000 (over 43,000 across the UK).
- Universities also play an extremely important role in leveraging additional resource into Wales, currently earning over £400m in much-needed export earnings through overseas revenue and international students coming to study in Wales.³
- With a total turnover of over £1.3bn, universities have an estimated impact of almost £2.6bn on Wales’ economy, with this figure reaching £3.6bn once total off-campus spending by students is taken into account. Based purely on patterns of expenditure, for every £100m that is invested in higher education £103m is generated to the Welsh economy (a high ‘multiplier effect’).⁴

3.3. There is a wide range of evidence to suggest that investment in universities will have an impact on the economic growth and international competitiveness of Wales as a whole. 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.⁵ Long-run economic growth is above all determined by knowledge accumulation and technological progress.⁶ There are few sectors of the Welsh economy with the capacity or scope to grow and generate export earnings as well as higher education. As recognised by the Welsh Government the alternative economic levers at its disposal are comparatively limited.⁷

3.4. Universities are also a catalyst for social mobility and continue to invest heavily in ensuring that students from all backgrounds have access to higher education. An undergraduate degree increases an individual’s chance of employment and

² Higher Education Statistical Agency (HESA), Destinations of Leavers from Higher Education 2011/12, HEIDI Report 2013.

³ Kelly, McNicoll et al., The Economic Impact of Higher Education in Wales, June 2013, commissioned by HEW.

⁴ Ibid.

⁵ Universities UK, Higher Education in Focus: Driving Economic Growth, 2011.

⁶ OECD, The OECD Innovation Strategy - Getting a head start on tomorrow, 2010.

⁷ Welsh Government, Programme for Government Annual Report 2012, p.3 & 6.

increases marginal earnings by 27% on average compared to the possession of two or more A-levels. Higher levels of study bring even greater returns on learning.⁸

- 3.5. Universities are currently faced with significant risks and uncertainties in a continuing period of major change and transition across the UK. The long-term impact for enrolments of full-time undergraduate students arising from the move towards fee-based funding is still uncertain for Wales and poses risks in relation to higher-cost subjects, widening access and the cross-border flows of students. Part-time funding arrangements for 2014/15 and postgraduate taught arrangements are yet to be fully determined and there may be a particular need to manage the transition years for part-time providers where there is a risk of a significant drop in support. The budget for research will be maintained until after the Research Excellence Framework (REF) exercise at the moment, but its future beyond that is not certain.
- 3.6. The long-term financial outlook for universities in Wales needs to be kept under review. The Higher Education Funding Council for Wales (HEFCW) in its most recent analysis of the financial position of the higher education sector in Wales concluded that: “The figures for 2011/12, when adjusted to take account of the full economic cost adjustments for the cost of capital and infrastructure, show that the sector’s position is an aggregate deficit of £64m compared with a deficit of £56m in 2010/11. This represents the degree to which the sector is not in a position to provide for a fully sustainable future.”⁹
- 3.7. Investment in higher education needs to take into account an increasingly competitive international context. Expenditure on higher education in the UK as a whole appears to have been relatively low in recent years (1.2% GDP in 2010 compared to the US at 2.7% for instance).¹⁰ Previous analyses indicate that universities in Wales have been at a significant comparative funding disadvantage to other UK countries throughout most of the preceding decade. HEFCW’s Report identified a funding gap with England of up to £69m and rising in 2007/08.¹¹ 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).¹² The European Commission has set a target of 3% of GDP for investment in innovation for countries within the European Union to remain competitive globally in the long term.

⁸ BIS Research Paper 45, The Returns to Higher Education Qualifications, June 2011.

⁹ HEFCW Circular [W13/15HE](#), 08 May 2013, para. 8, p.2.

¹⁰ UUK, Higher Education in Focus: Driving Economic Growth, 2011.

¹¹ HEFCW, The Funding Gap 2007/8, undated (available [on-line](#)).

¹² The Learned Society of Wales, “Comments of the Council of the Learned Society of Wales on the Welsh Government’s support for the universities in Wales”, March 2011.

RESEARCH

- 3.8. The importance of Research and innovation at universities in Wales has been recognised by the Welsh Government's science and innovation agendas.¹³ Higher education accounts for nearly half of all Research & Development investment in Wales.¹⁴ In addition to the long-run economic impact that research and innovation can have, these activities represent a pinnacle of human achievement and have the potential to change or enrich lives profoundly. Recent ground breaking developments in Wales span diverse fields including, for instance, biotechnology (e.g. the identification of diagnostic biomarkers for detecting early-stage lung cancer), energy (e.g. patenting of microbial fuel cell technology), medicine (e.g. development of treatment for neurodegenerative diseases), opto-electronics (e.g. next generation computer graphics based on ray tracing and photon mapping), and agriculture (e.g. methods of containment of fallen stock).¹⁵
- 3.9. It should be recognised from the outset that, while an increasing emphasis is placed on the commercialisation of research and the income streams which it generates, much of this research could not exist without significant grant funding to support Welsh universities in these activities. We share the ambition to raise the Welsh share to 5% but do not see that figure as a reliable proxy for success in gaining research funding more broadly. Nobody should be under any illusion about the very substantial level of investment in the science base that would be required to rebalance the subject mix in favour of UK Research Council success. More generally, without significant investment in line with other economies, Wales will not remain competitive or retain its international standing in this area.

4. How effective are HEIs in securing research income including Welsh Government (WG) funding of research via HEFCW?

- 4.1. To answer this question fully requires recognition that the Welsh Government's use of Research Council income as a key performance indicator, while important, provides only a single and indirect measure of research productivity and quality.
- 4.2. In contrast the main research performance indicators used by the UK HE Funding Councils to assure themselves (and devolved governments) of the quality of research being undertaken in the HE sector are (i) the results of the peer-review Research Assessment Exercise (RAE) carried out every 5-6 years and (ii) the more comprehensive biannual international bibliometric assessment of the UK research

¹³ Welsh Government, Science for Wales – A strategic agenda, March 2012; and, Welsh Government, Innovation Wales, July 2013.

¹⁴ Welsh Government, R&D expenditure by UK country, StatsWales, March 2012.

¹⁵ See Welsh Government, Advances, Issue 69, Summer 2013, pp.10-14.

base commissioned by the Department for Business, Innovation and Skills (DBIS). In these comparisons, research outputs (e.g. journal publications and peer citation data) are used to provide a more realistic, internationally recognised base for demonstrating research quality and research efficiency.

- 4.3. The problem of focusing on a single input indicator such as the research income from the UK Research Councils is that funding from the UK Research Councils does not provide a complete picture of research funding in Welsh universities. Moreover, as the value or quality of research does not always correlate with the amount of money secured, it is important to recognise that not all disciplines require or have access to the same amount of funding to conduct their research. For example, Welsh universities are relatively good at attracting research funding from the Arts and Humanities Research Council (AHRC) and Economic and Social Research Council (ESRC) – however both these distribute a comparatively smaller proportion of the total value of Research Council grants.¹⁶
- 4.4. Consequently, to address the question of Welsh universities' research effectiveness requires consideration of both the comparative quality of Welsh research outputs and the relative efficiency of how research income is converted into research outputs.

(a) Research Income

- 4.5. The Welsh Government's key research target remains achieving parity with other UK nations in terms of the percentage of competitive Research Council income based on the relative percentage of the UK population.¹⁷ Specifically this involves increasing Wales' proportional share of UK Research Council funding from 3.4% to greater than 5% by 2017.¹⁸ Over the past 10 years, Wales has secured between 3.1% and 3.4% of total UK Research Council income, a share considered by WG – employing population size -to be insufficient when compared to England and Scotland. However reliance on this single indirect indicator for assessing research performance risks presenting a misleading and one-sided picture as it fails to recognize:
- (i) That Welsh universities are part of a world-leading UK science base, with strong and leading performances on several international measures of research output and efficiency.¹⁹
 - (ii) That historically the proportion of UK Research Council Funding secured by universities in Wales is a direct result of the lower proportion of research

¹⁶ Thomson, 2010.

¹⁷ Science for Wales, 2012.

¹⁸ Ibid, p.3.

¹⁹ Elsevier International Comparative Performance of the Welsh Research Base, 2013.

capacity in expensive science and technology, engineering and mathematical (STEM) disciplines that historically exists in Wales compared with universities in England and Scotland.²⁰

- (iii) That STEM disciplines typically attract the highest proportion of Research Council grants.
- (iv) That Welsh universities depend less on Research Council funding as a source of research income.²¹ On average, UK Research Council funding amounts to only 22% of the total research income secured by universities in Wales and that while important, universities secure most of their research income from a variety of other sources including the European Framework programmes, Technology Strategy Board, National Health Service in Wales, European Structural funds, charities and industry.
- (v) That in 3 of the 7 Research Councils (Arts & Humanities Research Council, Biotechnology and Biological Sciences Research Council and the Economic & Social Research Council) Welsh universities' income exceeds the Welsh Government's 5% benchmark.

(b) Quality and Efficiency of Welsh Research

4.6. Despite comparatively low levels of Research Council income, Wales' internationally recognised research has risen dramatically over the last decade and now makes a significant contribution to the UK's world-leading research base. Evidence for this comes from a close analysis of the last UK RAE and recent internationally recognized bibliometric and econometric assessments of Wales' comparative standing.

RAE 2008

4.7. The 2008 RAE research performance indicated that Wales had a slightly lower percentage (49 per cent) of research activity at the very highest 4* (world leading) and 3* (internationally excellent) levels compared to the UK average (54 per cent). However, a more careful analysis showed that based on the proportion of highest quality research (4*+ 3*) Wales performed better than other regions in the UK, when normalised for core (QR) research funding, confirming the excellent return on investment when considering that the UK is the international leader in the efficiency of research spending.²²

²⁰ Learned Society Report, 2012.

²¹ Thomson, 2010.

²² Learned Society Report, 2012.

Bibliometric analysis

- 4.8. While clearly important for funding allocations, the RAE considers a small and selective number of research outputs, which does not cover most of the published research produced by universities in the time period. A more detailed bibliometric analysis of Welsh publications over the past decade shows:
- That the volume of Welsh research has grown at a rate that outpaces the world and UK averages.
 - That over the same decade, the research impact (number of citations per paper) from Welsh universities grew at a rate that overtook the UK average in the period 2006-2010 (BIS Report. 2011).
 - According to Thomson Reuters over the past decade research in Wales has come from below the World, OECD and EU averages to take a place within the top 20 research countries in the world.
 - In terms of international research impact, Wales' current research impact (as judged by citations per paper) now exceeds the world, OECD and EU averages, despite producing proportionally fewer overall outputs and winning relatively low levels of competitively awarded research funding.

Efficient use of research income

- 4.9. According to a forthcoming report by Elsevier, Wales is the most efficient constitute country in the UK for converting Gross Expenditure on R&D (GERD) into publications and one of the most efficient in the world for countries of a similar size. This remarkable finding is attributed to the overall low levels of Welsh GERD and a relatively slow growing researcher base.²³

5. How successful are Welsh Higher Education Institutions in securing research income from all sources?

- 5.1. Over the past 6 years, Welsh universities secured over £1.5 billion in research income from a variety of funding sources including UK Research Councils, European Framework programmes, Technology Strategy Board, NHS in Wales, European Structural funds, charities and industry.
- 5.2. One of the most significant areas of growth over this period has been the year on year increase in funding from EU sources. In 2011/12 this accounted for nearly 14% of the sector's total research income, compared with 6.5% in 2005/06.
- 5.3. Although for the historical reasons outlined above, Wales' universities secure less overall research income from UK Research Councils compared to other UK constituent countries by proportion of population:

²³ Elsevier International Comparative Performance of the Welsh Research Base, 2013.

- (i) The amount of Research Council funding income per head of population for Wales received by Welsh university remains similar to the average for English regions if the 'Golden Triangle' universities (i.e. Cambridge, Oxford and London's top research intensives) which account for some 29% of total income are excluded.²⁴
- (ii) Success rate in terms of the number of awards to applications submitted from Wales' universities to the UK Research Councils, remains close to the UK average across the Research Councils.

6. In answering the above question you may also want to consider:

Which factors lead to some Welsh Higher Education Institutions receiving more research funding than others?

6.1. Like other constitute UK countries, the Welsh higher education sector comprises a diverse range of universities whose mission, discipline mix, history and student/staff size determine the extent of research intensity and hence differential amounts of research income. All Welsh universities engage in research and in the 2008 RAE, every Welsh university that submitted research staff produced research that was rated 'world leading' (4*: 2-19%) or internationally excellent (3*: 17-48%). The five largest Welsh universities, however, with a combined annual turnover of £1 billion and over 70% of all students in Wales, secure more than 95% of all Wales' university research income.

7. How can Welsh Higher Education Institutions improve their performance to meet the Welsh Government's ambition that they receive at least 5 per cent of UK Research Council funding?

7.1. Welsh universities currently employ a range of within- and across- institution initiatives designed to improve and maximize research quality and income including increased funding from UK Research councils. These involve implementing strategic improvements - all of which have led universities to pay close attention to levels of research productivity, research quality, performance management, and interdisciplinary collaboration - and an ongoing review of competitive UK and EU funding schemes. Examples include (i) institutional research management, (e.g. reviewing competitive grant opportunities; actioning feedback from research councils; identifying and developing larger possibly pan-Wales proposals; and systematizing internal peer review), (ii) institution professional development and training for early careers researchers (e.g. Research Team Leaders' Development Programme developed at Cardiff University, which won a Times Higher Award in 2011) (iii) Pan-Wales research leadership programmes (e.g. Welsh Crucible²⁵ and

²⁴ Thomson, 2010.

²⁵ <http://www.welshcrucible.org.uk/>

Welsh Senior Research Leaders programme²⁶); and finally (iv) promoting the achievement and research profile of the Welsh research base (e.g. dedicated article in the prestigious journal SCIENCE in April 2013²⁷).

How can the Welsh Government help Welsh universities to achieve the main objective set out in Science for Wales?

- 7.2. Given the international ambitions set out by the Welsh Government in Science for Wales²⁸ and more recently in the Policy Statement for Higher Education,²⁹ the Welsh Government can help Welsh universities to achieve the main objective set out in Science for Wales of building ‘a strong and dynamic science base that supports the economic and national development of Wales’.³⁰
- 7.3. Universities are recognised throughout the world as one of the critical drivers of sustainable economic growth. For Welsh universities to maximise their contribution to economic growth and Wales’ international standing in the increasingly competitive domestic and international environment, further funding will be required aimed at (i) building Wales’ research capacity and (ii) developing a unique, strong and recognizable Welsh brand that can be used alongside individual institutional and UK brands to promote the high-quality and balanced sector-wide offerings for different international audiences. A positive brand like that developed in Scotland could be expected to have a significant impact on recruitment of students and academic staff, attracting resources and inward investment.³¹
- 7.4. Despite the growing importance of education and student relevant metrics, internationally recognized world-class universities remains largely defined by their research quality. Research is increasingly employed as an indication of a country’s reputation, potential to secure inward investment and ability to compete successfully in the global economy.
- 7.5. Wales’ university research base is uniquely placed to make a direct, distinctive and reputation enhancing contribution to Wales’ economic, social and cultural ambitions of being recognised as “small smart country”.

²⁶ <http://www.lfhe.ac.uk/en/research-resources/publications/engage-summer-2013/development/developing-research-leadership.cfm>

²⁷ sciencecareers.org/Wales2013.

²⁸ Welsh Government, 2012.

²⁹ Welsh Government, 2013.

³⁰ Science for Wales, p.3.

³¹ Universities’ Contribution to Scotland’s Economic Growth, 2013.

- 7.6. While few would argue that Welsh universities need to improve and secure more research grant income, a key reason for the lower than expected overall volume of Research Council income, and in particular less funding from the highest spending physical and medical science councils, stems from Wales' historically smaller university science and postgraduate research base compared to Scotland and England.³²
- 7.7. Realizing that a strong science research base is crucial to improving Wales' economic wellbeing, international reputation and securing a prosperous, healthy and sustainable future for Wales,³³ the Welsh government in 2012 announced the Sêr Cymru initiative as part of the Chief Scientific Adviser's agenda for securing scientific growth.
- 7.8. Recognising that "Governments can create the conditions under which research and innovation can thrive" and in particular "make vital investments to build capability",³⁴ in March 2012 the Welsh Government invested £50 million in the Sêr Cymru collaborative programme over a five-year period. The initiative is intended to help Wales build a more sustainable and successful research base capable of attracting further competitive Research Council funding.³⁵ It is also intended to help support the even more ambitious target articulated by Welsh Government in June 2013 of "building a world-class" research system in Wales that serves the interests of learners and the nation in the twenty-first century".³⁶
- 7.9. The five year Sêr Cymru funding provides a much welcome and needed impetus for Welsh research. If universities in Wales are to consistently secure 5% of Research Council funding³⁷ and deliver a "world class research system"³⁸ however, there will need to be much greater investment in research capacity which reflects, in particular, that:
- (i) Higher education in Wales (unlike England) accounts for nearly half of all research and development funding in Wales.³⁹
 - (ii) Wales' research base shows the lowest growth among UK constituent countries and comparator EU countries as well as the lowest R&D intensity as measured by expenditure on R&D per GDP.⁴⁰

³² Learned Society Report, 2012.

³³ Welsh Government, Science for Wales, 2012.

³⁴ Ibid, p.7

³⁵ Welsh Government, Policy Statement for Higher Education, 2013, p28

³⁶ Ibid.

³⁷ Welsh Government, Science for Wales, 2012.

³⁸ Welsh Government, HE Policy Statement for Higher Education, 2013.

³⁹ Welsh Government, "R&D expenditure by UK country." StatsWales, March 2012.

⁴⁰ Elsevier International Comparative Performance of the Welsh Research Base, 2013.

7.10. Although the quality of Welsh research currently outperforms many similar sized countries in terms of its research quality, Welsh universities have managed to achieve this with less research capacity than other countries. According to OECD figures, Wales has the lowest proportion of researchers for its population (0.31) compared with the 3 other UK constituent countries (Northern Ireland: 0.34; Scotland: 0.43 and England: 0.43). Moreover Wales has the lowest proportion of researchers for its population (0.31) compared with 4 similar sized research productive European countries (Denmark: 0.67; Finland: 0.74; Norway: 0.55 and Ireland 0.34).

7.11. A consequence of this overall lower proportion of research capacity/critical mass compared with universities in England and Scotland is the requirement of more support to help grow a sustainable vibrant postgraduate system in the sector. Funding a sustainable system for attracting and funding postgraduates both from Wales, UK, EU and overseas needs to be an essential part of any holistic research strategy for universities and the sector more broadly if Wales wants to maintain, grow and market its research impact.

7.12. To build a strong, sustainable and dynamic science base capable of supporting the economic and national development of Wales, in a reasonable time frame, will require further investment in internationally excellent research capacity over and above the current Sêr Cymru initiatives. All this is underpinned by Quality Research (QR) funding, and would not be achievable without it. Further decline in investment in research would have serious and lasting consequences for Wales in the future.

8. In which areas do Welsh Higher Education Institutions successfully collaborate to bid for research funding, and how could improvements be made in other areas where greater collaboration is required to increase research income?

8.1. Researchers at Welsh universities successfully collaborate across a range of regional, national, European and international boundaries. The following are some illustrative examples:

(A) Research Centres

8.2. Since 2005 a number of successful major collaborative research centres have been funded by HEFCW. These include:

- (i) The Low Carbon Research Institute (LCRI), which was set up to unite and promote energy research in Wales, UK and to help deliver a low carbon future. The multidisciplinary LCRI supports the energy sector, UK and globally, to develop low carbon generation, storage, distribution and end use technologies, and to offer policy advice. LCRI's research fund portfolio now exceeds over £80 million with funds divided equally between three sources;

the UK Research Councils; the Convergence Energy Programme (ERDF/ESF); and industrial, government and EU competitive research funds.⁴¹

- (ii) Wales Institute of Social and Economic Research, Data and Methods.⁴²
- (iii) Wales Institution of Cognitive Neuroscience⁴³
- (iv) Climate Change Consortium of Wales (C3W)⁴⁴
- (v) Wales Institute of Mathematical and Computational Sciences⁴⁵

(B) European Collaboration

8.3. The main areas where Welsh universities successful collaborate include the fields of health, biosciences, ICT, nanoscience, energy environments, space and social sciences. There is evidence from European Framework Programmes grants that Welsh Universities have worked with over 1,500 collaborators from universities and businesses across Europe and the rest of the world.

(C) Publications

8.4. Research is a global enterprise and international collaboration resulting from co-authorship has been a rapidly growing component of core research activity for most successful countries and universities. International collaboration publications in particular are rising and typically secure a greater number of peer recognition (citations) than domestic publications. In this regard:

- Wales' internationally collaborative publications have been increasing resulting in high field weighted citation impact that is 59% above the world average.⁴⁶
- 43% of Welsh research articles result from collaboration outside the UK. This share has grown significantly from 1997-2001 when the level was around 25%.
- Comparing between the UK constituent countries shows that Wales has now the largest proportion of publications with an international co-author.
- By comparison a relatively small portion of publications result from collaboration within Wales (this is neither surprising nor problematic, however).
- Aside from collaboration with constituent countries such as Scotland and England, Wales has extensive collaborative publications with European partners such as the Netherlands, Switzerland, Denmark and Belgium, global partners such as USA, Canada, Australia and Japan, and also emerging countries such as China and India.

⁴¹ <http://www.lcri.org.uk/>.

⁴² <http://www.wiserd.ac.uk/about-us/>.

⁴³ <http://www.wicn.ac.uk/index.html>.

⁴⁴ <http://www.climatechangewales.ac.uk/>.

⁴⁵ <http://www.wimcs.ac.uk/>.

⁴⁶ Elsevier International Comparative Performance of the Welsh Research Base, 2013.

TUITION FEE INCOME AND SUPPORT

- 8.5. Before answering the specific questions set out in the Consultation Letter we note that the Inquiry chooses to focus on full-time undergraduate higher education funding only. There are clear risks in developing elements of HE funding policy in isolation, however. Full-time undergraduate funding policy has a direct impact on other areas including part-time and postgraduate provision, research, innovation and related activities.
- 8.6. In relation to part-time and postgraduate study in particular, funding issues still need to be addressed. Part-time funding arrangements for 2014/15 and postgraduate taught arrangements are yet to be fully determined. At this stage we understand that full new student support regime for part-time students will not be introduced for 2014/15.⁴⁷ However, eligible students studying at an intensity of over 25% of a full-time course would be able to access a non-means tested loan⁴⁸ and funding should be available to HEFCW “to continue to fund part-time provision at broadly current levels and in return expect higher education institutions to exercise restraint in the setting of part-time tuition fees”. There are clear risks if funding issues for these areas are not addressed, or concentration on full-time funding issues alone prevents them from being addressed adequately. Higher Education Funding Council for England (HEFCE)’s analysis of the impact of the 2012 reforms in England, in particular, identified a 40% drop in part-time enrolments which points to the significant risks for policy makers in this area.⁴⁹

9. What has been the financial effect of the new tuition fee policy introduced in 2012 which allows HEIs to charge students up to £9,000 per annum for HE courses? What are the financial implications of the WG’s tuition fee grant? What future financial effect is this policy likely to have?⁵⁰

- 9.1. The tuition fee policy introduced in 2012 allowed fees for UK/EU full-time undergraduate courses to be charged up to a maximum of £9k. Welsh and EU domiciled students were made eligible to receive fee grant payments to pay the difference between £3,575 and the fee charged by an institution. These were designed to ensure that no Welsh student paid more in real terms, wherever they chose to study, than in 2010/11. HEFCW, however, was required to meet the cost of

⁴⁷ Welsh Government Cabinet Statement, 05 March 2013.

⁴⁸ Welsh Government, Student Finance Wales Information Notice (03/2013), Part-time Student Support: Fees (Wales) for Academic Year 2014/15, 03 June 2013.

⁴⁹ HEFCE, Higher Education in England: Impact of the 2012 reforms, March 2013.

⁵⁰ This includes both the questions on p.1 and in the appendix of the consultation letter. The first sentence/question is identical in both contexts.

the fee grant payments – including those to institutions outside Wales - from its budget, meaning that as fee grant payments have increased, the budget remaining for allocation to universities in Wales has correspondingly reduced. The budget for fee grant payments increased by two thirds to £167m in 2013/14, including £50m to institutions outside Wales.

- 9.2. The overall financial impact for universities in Wales is not fully clear at this stage since financial and enrolment data for 2012/13 and beyond is not yet available. According to HEFCW’s estimates, all universities in Wales (except the Open University) were expected to benefit from increased net funding as a result of increased fee income in 2013/14.⁵¹ However, the actual outcomes depend on a number of variables including, in particular, cross-border flows and the overall budget allocated to higher education.
- 9.3. Cross-border flows have significant financial implications for universities in Wales under the new regime. Overall, there appears to have been a positive net financial impact from net cross-border flows (i.e. the additional fee income from rest of UK students, less the fee grant payments for Welsh students choosing to study in other parts of the UK). Recent UCAS figures show that the number of accepted applicants to Welsh universities from the rest of the UK (non EU) fell significantly for 2012 entry but partially recovered for 2013 entry to 10,530. The great majority of the rest of UK students for 2013 entry were from England (10,320 or 98% in 2013/14). The number of Welsh students choosing to study in the rest of the UK (i.e. eligible for fee grant payments) has increased successively over the past four years to 7,500 for 2013/4 entry. In addition there were 990 accepted applicants to Welsh institutions from the EU in 2013/14 (also eligible for fee grant payments). The net effect has been a net inflow of students from the rest of the UK, but the margin appears to have narrowed in the last two application cycles.⁵²

UK-Wales Inflow-Outflow	Number of acceptances by year of entry			
	2010-11	2011-12	2012-13	2013-14
Rest of UK students accepted to institutions in Wales	10,500	12,320	9,390	10,530
Welsh students accepted to institutions in the Rest of UK	6,460	6,740	7,320	7,500
Net inflow/(outflow)	4,040	5,580	2,070	3,030

- 9.4. While there have been gains in fee income overall for the sector, there are concerns about the variable impact of the policy reforms at the level of individual universities. In particular, HEFCW’s strategic reallocation exercise in 2012 required universities to commit to an average fee of £7.5k from 2013/14 in return for receiving a share of

⁵¹ HEFCW Circular 13/09HE Funding Allocations 2013/14.

⁵² UCAS Interim assessment of UCAS acceptances, 24 September 2013, Table 1a.

strategically reallocated student number places (about half of all numbers). This has prevented the sector in Wales from benefiting from comparable levels of fee income to other UK countries. Recent UCAS analysis confirms that average fee levels were higher in England than Wales in the 2013 recruitment cycle, and while fee levels increased in England, fees did not significantly increase in Wales. Access to the £9k maximum fee is a key issue for some universities, particularly post-92 institutions in Wales.

- 9.5. Another important factor is the overall Welsh Government Budget for higher education. Changes to the Welsh Government higher education budget have had a very significant impact on universities in Wales. The Welsh Government's higher education budget for 2013/14 was £382 million. This was similar in nominal terms to the Final Budget in the previous year (£380 million)⁵³ but a reduction of nearly 2% in real terms.⁵⁴ Over the last three years the higher education budget has reduced significantly from £452 million in 2010/11 in the Second Supplementary Budget (£70 million or 15% in nominal terms, and £96 million or 20% in 2012/13 terms).
- 9.6. Changes in the way that funding for full-time undergraduate provision is funded currently poses risks in relation to higher-cost subjects, widening access and the cross-border flows of students. The budgets for teaching (-31%) and innovation & engagement (-45%) were significantly reduced for 2013/14, while research funding remained static. The budget available for allocation to universities will reduce significantly again in 2014/15 as a further cohort of students become eligible for fee grant payments. The budget for research we expect to be maintained until after the Research Excellence Framework (REF) exercise, but its future beyond that is not certain - a clear cut in the Quality Research (QR) budget would be a first for a UK nation and would involve significant reputational risks for the sector. Maintaining the budgets for part-time and research, however, will have significant consequences for other areas of support including for instance high cost and strategically important subjects, widening access, and Welsh medium provision. HEFCW funding for innovation and engagement is expected to be removed altogether except for residual project funding in 2014/15. In the short-term, it is clear that there is no capacity for absorbing further reductions without damaging provision with its wider consequences for Wales.

⁵³ The Final Budget 2013/14 for higher education was £380,424, the First Supplementary Budget £382,375, and Second Supplementary Budget £371,026.

⁵⁴ Based on HM Treasury GDP deflators as at June 2013.

10. Does the new tuition fee policy create a greater or lesser level of financial uncertainty for Higher Education Institutions? Please explain your answer.

10.1. There are many areas of significant uncertainty for universities at the moment, arising from major change in fee and funding arrangements across the UK as well as in Wales. In the new regime, funding has become increasingly fee-based. It has not been possible, however, to rely on previous patterns of recruitment to forecast future behaviour, and in many respects the sector is still in a transitional period before new patterns establish themselves. Developing policy in this context has been challenging – part-time and post-graduate funding policies have required implementation of temporary/transitional measures for instance.

11. What has been, and is likely to be in the future, the financial implications of the Welsh Government's tuition fee grant?

11.1. Most immediately, our concerns are that further reductions in overall funding and increases in fee payments, will have a serious impact on the ability to fund important areas of activity as outlined above.

11.2. In the longer term, the policies need to be considered in the light of other market factors. In particular, the demographic projections for both England and Wales project a significant decline in the key age groups for applying to university between 2010 and 2020, which starts to recover by around 2020.

12. Does the current funding regime provide effective financial support to students from the lowest income households and is this the most cost effective way of financially supporting this cohort of students?

12.1. So far the evidence from the reforms in England and Wales appears to show that there has been little impact on full-time students from lower income households or other widening access groups resulting from the introduction of the higher maximum fee of £9k, either with or without the support of fee grant payments. Application rates through UCAS from disadvantaged groups in England rose to a new high in England in 2013 despite the significant change in fee levels. The difference in demand by background remains largest for high-tariff universities. While universities continue to invest a significant proportion of their income in widening access activities, however, the impact of reductions in grant funding for universities (including the removal of widening access strategy funding and potential reduction/removal of widening access premium funding in 2014/15) and future funding arrangements for part-time and flexible provision may have significant consequences for widening access in future.

13. What are the financial implications for Wales of subsidising Welsh students who study in Higher Education Institutions outside of Wales?

13.1. In 2013/14 the fee grant payments to students choosing to study outside Wales was £50 million, and this figure is set to rise as another year/cohort of students is able to take advantage of this support arrangement. Under current arrangements, the fee grant payments are met from HEFCW's budget. This means that, in effect, Welsh universities pay for Welsh students who choose to study outside Wales. In future we would welcome a review of how this expenditure can be best utilised, since it seems to be wrong in principle and is unique within the UK (Northern Ireland also provides grants to home students to support them in paying fees of up to £9k, but does not offer this to home students who choose to study in other UK countries). We would welcome, for instance, exploring how at least some of this funding could be used to provide more targeted support for widening access students, or those wishing to pursue priority subjects in Wales for instance.

14. What are the financial implications of more expensive subjects (e.g. medicine and engineering) being funded under the new tuition fee regime given that some courses may cost in excess of the maximum £9,000 per annum for Higher Education Institutions to deliver?

14.1. A consequence of moving from grant-based to fee-based funding is that fee levels do not, in general, reflect the costs of different subjects. High-cost and low-cost subjects alike are subject to a maximum fee of £9K. This obviously has significant financial implications for institutions with a comparatively high-cost subject base, particularly in the short-term, and could potentially lead to an unwanted shift in provision across the sector towards lower-cost subject areas. Formerly, direct grant compensated for differences in costs by applying different levels of grant for different academic subject categories. In 2011/12 this ranged from just over £1,867 per full-time equivalent student (i.e. for 120 credits) for social science to £11,658 for FTE for clinical medicine and dentistry at undergraduate level – from which it can be seen that the cost of courses in a number of areas were considered to exceed the £9K. Under the new regime introduced in 2012/13, premiums were used to offset the costs of only the highest cost and strategically important subjects. The lack of funding to support higher cost subjects remains an area of significant concern. For 2014/15 there is a risk that the premium will disappear entirely as a consequence of further reductions in the HE budget.

14.2. Universities are faced with a number of difficult choices in addressing the challenge of high-cost subjects: cross-subsidy from other subjects or activities, reduction of costs (with potential implications for learners), or potential divestment of activities in higher cost areas.

15. How important is the income stream to Welsh Higher Education Institutions from tuition fees received from students domiciled outside Wales including the rest of the UK, European students and overseas students?

15.1. Wales is already one of the most successful countries in the world for the recruitment of overseas students. The sector attracted 25,270 students from outside the UK in 2011/12. The UK's market share of international students is second only to the US (9.9%),⁵⁵ and Wales has a comparatively large share (5.7% in 2011/12) of overseas enrolments in the UK⁵⁶. As demonstrated by recent research⁵⁷ commissioned by HEW, international students' off-campus personal expenditure (e.g. spend on rent, food and other living expenses) amounted to an estimated £195 million. In addition, the sector attracted nearly 39,000 students from outside Wales, who spent an estimated £301 million on living and personal expenses. The expenditure of these students from outside Wales can be regarded as an injection into the Welsh economy. As discussed in the next section, this is a significant area of further opportunity for Welsh universities and the Welsh economy more generally.

OTHER INCOME AND FINANCIAL ISSUES

16. What opportunities do Welsh HEIs have to increase income from recruiting additional students?

16.1. In terms of full-time students, there appears to be further potential for recruiting more students to Welsh universities, particularly in the long term. The key limiting factor at the moment is the restriction on student support costs/student numbers, although the extent to which this is an issue varies for individual universities. Demographic change, however, is an important factor: projections for both England and Wales point to a significant decline in the key age groups for applying to university between 2010 and 2020, which starts to recover by around 2020. UCAS analysis has confirmed that the recent decline in applicants to Wales is primarily connected with population trends. The application rate of 18 year olds from Wales through UCAS in both 2012 and 2013 was around 30%, the highest recorded. However, the 18 year old application rate for Wales (30%) was still lower than for England (35%), Scotland (32%) and Northern Ireland (48%) which all saw slight increases in their application

⁵⁵ Universities UK, Higher Education in Focus: Driving Economic Growth - Higher Education a core strategic asset to the UK, 2011.

⁵⁶ HESA, HE students 2011-12, HEIDI Report 2013.

⁵⁷ Kelly, McNicoll et al., The Economic Impact of Higher Education in Wales, June 2013, commissioned by HEW.

rates in 2013, which points to potential for future growth in Wales.⁵⁸ Seen in a more global context, a number of countries across the world are showing phenomenal increases in participation rates and expansion of higher education (63% of Korea's 25-34 year olds held an HE qualification in 2009, compared to 13% of its older age groups for instance).

16.2. In terms of part-time and postgraduate students, the picture is more complex. Part-time and postgraduate student recruitment is currently unregulated in the sense that there is no restriction on the fee levels or student numbers. Both the OldBell3 report in Wales and the UUK study in England point to the importance of addressing supply-side issues for maximising part-time recruitment,⁵⁹ and point to evidence of instances where the supply of part-time provision has been the determining factor in accounting for changes in part-time enrolment patterns in Wales. In recent years, part-time enrolment trends have been downward and there is a significant risk that unless policy solutions address these issues there could be a large reduction along the lines of England. At the same time, there is a very real opportunity to adopt a policy which effects a different and more positive outcome in Wales.

16.3. In terms of international students, there are significant opportunities for substantial growth in recruitment and universities in Wales share an ambition to build on their considerable strengths in this area. The numbers of internationally mobile students are projected to rise from 3.7m in 2009 to 7.0m in 2020,⁶⁰ and universities in Wales collectively have strong ambitions to capitalise on the potential opportunities through further investment in this area with major implications for export earnings for Wales. This is an area in which the Welsh Government and universities could work together to realise the potentially substantial economic, cultural and reputational gains for Wales.

17. What are the financial consequences, now or in the future, of other changes in the HE marketplace including the entry of private providers?

17.1. The private higher education sector is emerging as a growing force in many parts of the world and presents a range of potential opportunities and challenges. From the overall UK perspective, private providers are broadening the UK offer by providing an extended range of opportunities to suit the needs of different individuals. In our response to the Further & Higher Education Bill 2012 and HE (Wales) Bill Consultation 2013, HEW outlined a number of issues which need to be addressed

⁵⁸ UCAS, Demand for full-time undergraduate higher education in 2013, 23 July 2013: <http://www.ucas.com/news-events/news/2013/demand-full-time-undergraduate-higher-education-2013>

⁵⁹ UUK (2010) op cit.; Gareth Williams, Old Bell3 Ltd, Employer engagement with part-time higher education, (2010).

⁶⁰ Ibid.

by future regulatory arrangements in relation to alternative providers. From a financial perspective, the key issues include the following:

- First and foremost it is essential that the sector maintains its international reputation for high quality provision as part of a UK-wide system – damage to the reputation of the sector would have very significant and lasting financial consequences.
- It will also be important to ensure that there is a level playing field. Alternative providers currently avoid many of the costs associated with the regulatory obligations for universities including information requirements for purposes of public assurance, and the costs of engagement with social justice and public agenda such as widening access and Welsh Medium for example. Under the recent proposals in the HE (Wales) Bill Technical consultation, for instance, we have expressed concerns that it appears that the maximum fee levels may only apply to regulated providers i.e. unregulated providers who opt to have courses designated on a case by case basis would be able to charge unrestricted fee levels.
- At present the Welsh Government has little control over student numbers in terms of private providers operating in Wales and no control over those operating in England. This could cause potential difficulties for the Welsh budget, which in turn could impact on the amount of funding available for the publically-funded Welsh HE sector to meet Welsh Government priorities.

18. What progress is being made in relation to the Welsh Government’s Programme for Government indicator that ‘at least 75% of Welsh Higher Education Institutions will have an annual income in excess of the UK median’, and how can this be improved in the future?

18.1. Progress against this indicator is reported annually by the Higher Education Funding Council for Wales, as part of the HEFCW Corporate Strategy targets. For 2011/12, we understand, however, that the UK median was identified at around £122 million, and four of the ten universities in Wales exceeded this. In 2012/13, there was a merger between the University of Glamorgan and the University of Wales, Newport to form the University of South Wales. Swansea Metropolitan University also formally merged with University of Wales: Trinity Saint David in 2013, but ‘Swansea Metropolitan’ currently retains its separate identity as part of the larger university. We currently await the outcomes of the review in North East Wales, which may point to the consideration of further change. We would expect that 4 out of 9 universities (44%) will exceed the UK median in the 2012/13 analysis, or 4 out of 8 universities (50%) if Swansea Metropolitan’s figures are included with those of the University of Wales: Trinity Saint David. One further institution is very close to the £122 million median at the moment, and could conceivably exceed it in future through growth in activity rather than reconfiguration. We have previously expressed our reservations about the use of this indicator, however. From a data perspective it needs to be

interpreted with caution - the calculation of the median itself depends on how institutions are aggregated or included (HESA separately record 206 higher education institutions for instance, and the median would be closer to £90 million). It masks the full extent of collaboration and reconfiguration across the sector.

18.2. In making the Higher Education Policy statement on 06 June 2011, the Minister for Education and Skills acknowledged that “the reconfiguration agenda, which has dominated policy for the last decade, is now largely completed”⁶¹ and signalled a new, post-reconfiguration HE policy that “looks forward to how we should build on the existing success of Welsh higher education.” In the past, the Welsh Government has made additional investment in higher education contingent on delivery against this agenda⁶². In the light of the new post-reconfiguration agenda, investment in universities in Wales should be a high priority in order to realise the longer-term benefits and savings that have underpinned the transformational agenda.

19. Final comments

19.1. Higher education has a significant role in driving economic growth both in the short and long run. We must ensure that resource decisions in the short-term do not store up problems or miss opportunities for the longer term. In particular, it should be recognised that there is no further capacity at the present time to reduce funding without serious consequences for universities’ activities. As a result any cut in funding could impact on research, jobs, skills, investment from business and the attractiveness to business to collaborate, with a significant detrimental impact for the wider economy and well-being of Wales.

Higher Education Wales September 2013

⁶¹ National Assembly for Wales, Record of Proceedings, 11 June 2013, 15:09 (webpage: [here](#)).

⁶² Welsh Assembly Government, Reaching Higher: Higher Education and the Learning Country – A Strategy for the higher education sector in Wales, March 2002. See paragraphs 22 and 24 in particular.