

National Assembly for Wales
Finance Committee
FIN(4)-WG15-06
Inquiry into Welsh Government
Draft Budget Proposals 2014-2015
Evidence from CollegesWales



The Welsh Government's Draft Budget Proposals 2014/15

Evidence to Finance Committee

September 2013

Colegau Cymru
Uned 7 Cae Gwyrdd
Greenmeadow Springs
Tongwynlais, Caerdydd CF15 7AB
Ff: 029 2052 2500
E: helo@colegaucymru.ac.uk
W: www.colegaucymru.ac.uk

CollegesWales
Unit 7 Cae Gwyrdd
Greenmeadow Springs
Tongwynlais, Cardiff CF15 7AB
T: 029 2052 2500
E: hello@collegeswales.ac.uk
W: www.collegeswales.ac.uk

Executive Summary

This paper sets out a strong case for the Welsh Government to maintain its planned level of funding for further education (FE) colleges in Wales.

ColegauCymru urges the National Assembly for Wales and the Welsh Government to:

- recognise the twin purposes of colleges: to promote social justice and inclusion and support a buoyant economy
- understand that colleges are the predominant providers of vocational and technical education in Wales while also providing high quality academic programmes
- acknowledge the key contribution of adult and continuing learning (ACL) to tackling disadvantage
- ensure that decisions on college funding are fair and that colleges are not disadvantaged compared with other sectors
- acknowledge that Welsh Government funding for colleges is a pivotal long term investment with real returns for the lives of individuals and for the Welsh economy
- continue with a new three year funding cycle to enable colleges to plan effectively, albeit with the recognition that external factors can influence final decisions on funding
- maintain capital maintenance funding at least at the level allocated in 2011/12 i.e. £6.5m to ensure buildings stay fit for purpose
- maintain financial contingency funds at the 2011/12 level of £7m to enable colleges to give support to disadvantaged learners and maintain funding for educational maintenance allowances and assembly learning grants
- maintain additional funding to support learners with learning difficulties and/or disabilities
- maintain investment in apprenticeships and discuss with ColegauCymru how to utilise any funds which may not be fully committed
- determine college recurrent funding in 2014/15 at the same level as originally set out for 2013/14 i.e. at least 1% cash increase on 2012/13. This would be a **real terms** reduction of around 6%¹ compared with 2012/13 and demonstrates colleges fair contribution to funding reductions in the light of the Welsh Government having to meet its tough Treasury-led spending targets.

¹ Annual inflation in August 2013 was 2.8% (Office for National Statistics). Assuming this stays at the same level, inflation will have increased by 5.6% by August 2014 and 8.4% by August 2015. The mid- point between 5.6% and 8.4% is 7.0%. An increase of 1% leaves 6%.

In return for this investment from the Welsh Government, FE colleges will

- deliver high quality vocational and academic programmes and continue to raise standards
- work closely with business to raise skill levels to benefit the economy of Wales
- provide specialist support to disadvantaged students and promote economic regeneration
- work closely with the Welsh Government to deliver its ambitious education and training programme.

Introduction

1. ColegauCymru represents the 16² further education (FE) colleges and FE institutions in Wales.³ In 2011/12, there were 214,850 individual students attending college and 229,615 enrolments.⁴ Colleges in 2011/12 had a turnover of £462m, with Welsh Government investment - including work-based learning and other financial support - of £365m (79% of total income).
2. FE colleges have responded positively to the Welsh Government's Transformation agenda and since 2009 the total number of colleges has been reduced from 25 to 16. Further mergers are planned.
3. In the current tough financial context, the funding of colleges need to be judged as a long term investment to improve the life chances of individuals and the economic competitiveness of the Welsh economy. This paper argues strongly in support of FE colleges having in 2014/15 *at the very least* the same level of funding as that initially planned for 2013/14.

Key role of FE colleges in Wales

4. FE colleges have a crucial role to play in delivering the skills needed to make a significant contribution to the economy of Wales. Colleges may be described as having a twin purpose – promoting social justice and inclusion and supporting a buoyant economy. This is best articulated in the Humphreys Report on FE Governance⁵ which spelled out the broad purposes purpose of further education in Wales.

² The 16 include Coleg Harlech/WEAN; WEA South; YMCA Community College; and Merthyr Tydfil College, University of South Wales.

³ In this paper the terms 'FE college' and 'college' are used to cover FE colleges and FE institutions.

⁴ *Further Education, Work-Based Learning and Community Learning in Wales 2011/12 SDR 48/2013*, Welsh Government, March 2013.

⁵ *An independent review of the governance arrangements of further education institutions in Wales* Rob Humphreys, Chair of the Review Panel, Welsh Government, March 2011.

“Each is inter-related with the others, and they are all interwoven into a fabric that is both institutional and sectoral in form:

- *providing high quality learning via diverse modes of delivery to enable learners, ranging from the age of 14 to adult, to achieve their full potential*
- *supporting economic prosperity by working in partnership with businesses, employers and other users and customers to meet training and skills needs*
- *raising the aspirations of communities and of learners, overcoming barriers to remaining in or returning to learning*
- *encouraging the development of active citizens, not only as skilled workers, but by instilling a wider sense of social responsibility*
- *being major and proactive agents in the collaborative planning and development of the seamless progression routes for learners from the age of 14 onwards*
- *widening participation through social inclusion and respecting diversity*
- *supporting regeneration within their communities and region*
- *working with partners, users, customers and the Welsh Assembly Government to achieve positive economic, environmental, social and cultural outcomes for wider society*
- *putting the best interests of the learner at the heart of all decision making”.*

5. Within these broad purposes, the Education Minister annually sets out key priorities for the FE sector. Those for 2013/14 were outlined in a letter to principals from the (then) Minister for Education and Skills in May 2013 and 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
- employer engagement and enterprise: effective engagement with employers and developing an enterprise culture
- developing Welsh-medium provision: increasing availability and take-up of Welsh-medium/bilingual learning.

Promoting social justice and inclusion

6. A survey of 15 colleges in Wales in July 2013 showed that almost 37,000 learners received Educational Maintenance Allowances, Assembly Learning Grants or college Financial Contingency Funds. This funding ensures that those requiring financial support are not deterred from enrolling on courses. Colleges have almost 500 looked-after children to whom they give specialist and dedicated support. Providing support to all these learners is time consuming and expensive yet it is at the heart of what colleges do. Investment needs to be sustained to ensure the most disadvantaged learners are catered for. Where does a learner go if deprived of a second chance opportunity? Maintaining investment in these learners ensures that they do not become NEET (not in employment, education or training).
7. Colleges make probably the single biggest impact to reducing those who are NEET by either being the first point of contact for the young persons or being the point of first referral by other agencies in many cases.
8. Reducing the number of people who are NEET has considerable long term positive implications for the economy. Research for the Audit Commission in 2010⁶ in England found that the average individual lifetime public finance cost of a 16-18 NEET (benefits, lost tax and national insurance) is £56,300. The average life-time resource cost (loss to economy, individuals and families and under- or unemployment) is £104,300. The figures combined amount to £160,000 life-time costs. The latest figures show there are 11,500 16-18 year olds who are NEET in Wales. The Wales Skills and Employment Board⁷ showed that around 50% of those who are NEET find employment, education or training but the other 50% are NEET long-term. Assuming the 50% figure still applies, the potential total cost to the economy of being NEET in Wales is around £600m. If colleges turn away students who then become NEET, far greater public expenditure is incurred than the amount saved by reductions to college funding.
9. Colleges received Financial Contingency Funds (FCF) of £7m from the Welsh Government in 2011/12. There were 17,145 successful applications for funds from students, 88% of which were from full-time students. The highest costs were for childcare and transport with other key areas being luncheon vouchers, equipment and books. 16 year olds who choose to remain in school may continue to receive means-tested free school meals (FSM). There is no dedicated FSM funding for college students. Colleges often increase the amount of funding available to disadvantaged learners by reallocating sums earned from entrepreneurial activity.

⁶ Bob Coles, Christine Godfrey, Antonia Keung, Steven Parrott and Jonathan Bradshaw *Estimating the life-time cost of NEET: 16-18 year olds not in Education, Employment or Training*. Research undertaken for the Audit Commission, University of York, July 2010.

⁷ Wales Skills and Employment Board, *Annual Report 2010*.

10. Colleges also receive funding for learners with learning difficulties and/or disabilities. In 2012/13 it amounted to £6.4m. This funding contributes towards providing specialist support in areas such as sign language and Braille and in-class (ancillary) support.
11. As well as providing financial support through grants, colleges deliver curriculum specifically designed for those from disadvantaged or vulnerable groups – that is, education and training provision as well as financial support. This provision, some of which can be termed as ‘uneconomic’, means that classes can be run in smaller groups, or that classes can be run in the community. By so doing, colleges encourage learners to participate in learning where they may not have done so previously.
12. In addition, colleges use a significant amount of resources to boost levels of literacy and numeracy. Estyn has pointed out the differences between chronological age and reading age for example, and colleges seek to compensate for these gaps. In November 2010, ColegauCymru carried out a survey showing that 43% of their new full-time students had literacy levels below level 1 on entry to college, with the comparable figure being 48% for level 1 numeracy. Improving literacy and numeracy levels is crucial in tackling disadvantage.
13. Although the Welsh Government legally has to give priority for 16-19 students, the importance of providing opportunities to students over the age of 19 cannot be overemphasised. Many ‘second chance’ people who did not reach their potential at school often benefit considerably from the opportunity to attend adult and continuing learning (ACL) courses. ACL provision has been cut back considerably as colleges have been encouraged to focus on basic skills, employability and skills for employees.

Supporting a Buoyant Economy by Investing in Skills

14. Colleges make a major contribution to the economy in Wales by raising skills levels in Wales. This is particularly significant as the increased level of long term unemployment in Wales since the recession in 2008 has denuded the skills base of our country.
15. ColegauCymru believes that despite the extremely testing economic outlook, Wales has the opportunity to rebuild its industrial future based on an ever more highly skilled workforce with FE colleges responding positively to the needs of business and industry. In our view there are a number of key factors that the 2014/15 Budget must address.

(i) Sustaining investment in quality learning outputs

16. As noted in para 4 (above), this key goal is reflected in the Minister for Education and Skills Priorities Letter for 2013/14⁸ in which colleges are urged to up-skill their learners to levels 3 and above and to continue to raise standards.

Paul Glaze, Chief Executive, Council for Wales of Voluntary Youth Services (CWVYS):

"The voluntary youth work sector works with over 250,000 young people between the ages of 11–25 years and delivers approximately two thirds of youth work provision in Wales.

"CWVYS considers itself fortunate to have an invaluable and flourishing working relationship with the YMCA Wales Community College. The key role of the YMCA College here is to enable the up skilling of the voluntary youth work sector in Wales and contribute hugely to the overall aims of the Welsh Government in raising standards of delivery and youth work practice.

"CWVYS would strongly urge the Welsh Government to continue to invest in the YMCA Wales Community College at a level which is commensurate with its outstanding performance in raising skills levels across Wales."

Nia Morris, Manager, Gwynedd Youth Service:

"The Youth Service in Gwynedd works with over 7000 young people and has 143 members of staff. The YMCA Community College has been essential in raising the skills level of our staff and young people. 100% of our staff are qualified to level 3 which is proof of our valuable working relationship."

17. Work with business has remained a central priority for the sector over many years. Most colleges now have a commercial arm or business unit and promote their services to a wide range of 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. Such services range from work on apprenticeships (all levels), bespoke training programmes for staff, consultancies, product innovation and general advice on future skill needs of their workforce. Colleges are constantly seeking to make sure that their work with business is nimble, at the cutting edge and suited to individual employer needs. *This is a central goal for colleges in Wales.*

Andy Bilcliff (Head of Hydro UK) RWE npower Ltd:

"We have a fantastic relationship with Grŵp Llandrillo Menai. This has led to the development of a leading edge apprenticeship scheme for Wind Turbine Maintenance Technicians who will work on our onshore and offshore installations in North Wales. This is the first scheme of its kind in Wales and the partnership between RWE and the College is providing these apprentices with a top class skill set."

⁸ *Priorities for the Further Education Sector: 2014/15* op cit.

18. The Minister expects colleges to:

- engage with Enterprise Zones
- work in partnership with City Regions to understand Labour Market Intelligence and address regional skills shortages
- respond to the skills needs arising from major infrastructure projects in Wales
- ensure that work placements and courses for local businesses are based on the appropriate occupational/professional/industry standards.

19. For colleges to take forward this ambitious agenda requires sustained investment by the Welsh Government.

20. Investment in colleges is a particularly effective way to generate a work-ready generation of young people. According to the latest large scale UKCES *Employers' Skills Survey*, FE colleges in Wales prepare 17-18 year old 'education leavers' better than school sixth forms in Wales by a margin of 10%. 75% of employers in the survey stated that college leavers are 'well prepared' or better compared to less than two thirds of school leavers who were so.⁹

21. Colleges have responded to the Welsh Government's investment with an improving quality profile year-on-year. As ColegauCymru's response to the White Paper on Further and Higher Education¹⁰ pointed 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."

22. Investment in colleges bears a clear return on quality learning.

(ii) Investment in skills in the global 'Race to the Top'

23. Sustaining 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' ambitious skills agenda. Approximately 85% of courses (at level 3 and below) offered by colleges in Wales are vocational or vocationally related. Colleges are therefore, by a large margin, *the predominant providers of vocational and technical education in Wales.*

⁹ UK Commission for Employment and Skills: *Employer Skills Survey 2011: Wales Results*, Evidence Report 62, Nov 2012, fig. 3.1 p.28.

¹⁰ *Response to White Paper: Further and Higher Education (Wales) Bill*. ColegauCymru, Sept 2012.

Mr Huw Roberts, Proprietor, Gwesty Cymru:

“Gwesty Cymru is an Aberystwyth based business that places the Welsh Language high on its Agenda. As a business we recently won the Institute of Welsh Affairs Inspire Award for the best use of Welsh in business in Wales. We work closely with Coleg Ceredigion to provide a wide range of work related short courses and diplomas both bilingually and through the medium of Welsh to increase the skill levels of our staff. By doing so we can ensure the growth of the company whilst contributing to the growth of the local economy.

“The threat to the funding of FE colleges in Wales is of great concern since it could potentially damage the excellent work currently taking place. Without Coleg Ceredigion’s training provision it would be challenging for us to continue to facilitate the training on which we have built our business and which has allowed us to contribute to the growth of the Welsh language.”

24. The need to develop a skills base for a renewed emphasis on industrial and construction industry growth is supported by clear evidence 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”*.¹¹ This gives a particular impetus to investment focused on enhancing Wales’ crucial vocational skills base.
25. This impetus is supported by some significant shifts that may be occurring in the wider global economy. *The Economist* recently devoted a special issue to what it has called the coming ‘third industrial revolution’ for manufacturing and innovation.¹² 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.
26. Although the UK has a long way to go until its economy recovers from the downturn, recent economic indicators have been positive. Wales needs to ensure a skilled workforce ready to make the most of any upturn in the economy and 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 Education and Skills Minister’s FE Priorities Letter.
27. Colleges are 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.

¹¹ Welsh Government synopsis of UKCES *Working Futures 2010-2020* report, December 2011, p.1 & 5.

¹² *The Economist* Special Edition, 21 April 2012.

Delivery of academic qualifications

28. Colleges enrol more 16-19 students than do school sixth forms. Colleges provide a “sixth form” provision which is often unrecognised by many politicians. Key features are that:

- results are very good – the 2013 AS/A level results showed outstanding performance in many colleges with results comparable to school sixth forms
- in several areas tertiary colleges widen student choice and provide specialist support
- tertiary reorganisation is cost effective and provides a more efficient and fair solution than just reducing budgets and cuts out unnecessary competition for 16-19 students.

(iii) Investment in powerful economic players who engage directly with employers

29. Colleges in Wales are pivotal economic players in their own right. The Welsh Government commissioned Cardiff University¹³ to investigate the economic impact of the *purchasing activity* of FE institutions and their staff and students. Scottish Government-commissioned research showed the return on investment in *qualifications*. Combining these two indicators (and assuming that the economic impact of FE colleges in Wales are broadly similar to that of FE colleges in Scotland) indicates 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 these studies.

30. 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.¹⁴ The productivity gains from raising skills levels and colleges’ 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.

¹³ Welsh Government, *The Impact of Further Education Institutions on the Economy of Wales*, January 2007.

¹⁴ 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.

31. A study by the Department for Business, Innovation and Skills (BIS)¹⁵ examined the economic impact of FE in England covering wage returns, employment returns and increased productivity against the investment made through government funding and fees. The study estimated the Net Present Value (NPV)¹⁶ of the government funded qualifications provided by the post-19 FE sector including colleges, private training providers and voluntary and charity sector providers.
32. The study showed that total government funding in England was £3.1bn in 2008/09 covering apprenticeships and work-based and provider-based NVQs at levels 2 and 3 as well as basic skills and developmental learning. The total economic value was calculated at a total NPV for the sector as a whole of £75bn. Further education was the largest contributor. The ratio of investment against economic benefits was £25 for every £1 invested. **If it is assumed a similar rate of return in Wales and that provision in Wales is 5% of that in England, we arrive at a figure of around £3.8bn return on investment.**

¹⁵ Department for Business, Innovation and Skills, *Measuring the Economic Impact of Further Education*, BIS Research Paper No 38 March 2011.

¹⁶ NPV is calculated by “estimating the discounted benefits from achieving a qualification over the working life of the learner and subtracting the costs associated with undertaking the qualification - future benefits consist of higher wages and better employment prospects for learners as well as ‘spillovers’ to other individuals and employers; costs consist of government funding and fees paid by individuals or employers, as well as output foregone during learning”. (BIS, *ibid.* p5).

Questions posed by the Committee

What, in your opinion, has been the impact of the Welsh Government's 2013-14 budget?

34. The provisional allocations for FE colleges in 2013/14 announced in February 2013 showed an overall increase of 1% compared with the 2012/13 allocations. Governing bodies used this figure to set their budgets for 2013/14.
35. Colleges were officially informed in July 2013 that rather than having a 1% increase, their allocations would be reduced by 1.5%. The revised allocation of £310.0m comprised £284.2m mainstream funding, £8.6m pathways to apprenticeship and £17.2m for additional adult skills, a reduction of £2.4m on the 2012/13 allocations and around £5.5m less than the provisional allocations¹⁷.
36. The total non-discretionary additional costs which colleges will incur in 2013/14 are estimated to be £8.9m. This figure is made up of: the £2.4m reduction in spending from that in 2012/13; around £3m to cover a 1% pay increase¹⁸; and £3.5m to cover the cost of annual increments. Other inflationary pressures such as increases in energy prices and expected increases in pension contributions further add to college costs.
37. Colleges have also had funding for capital maintenance reduced. They received £2.5m in 2012/13, a reduction of £4m from the figure for 2011/12. Maintaining investment in the fabric and structure of buildings is imperative to ensure that facilities are of high quality. Cutting maintenance funding is storing up problems for the future.
38. To meet these costs and funding reductions, colleges are currently reviewing their services to learners, businesses and local communities. They are seeking efficiency gains such as cutting uneconomic classes, increasing class size, exploring opportunities to generate additional income and reviewing staff levels.
39. The Table below shows the breakdown of income and expenditure for FE colleges in 2011/12 (the latest figures).¹⁹
40. Colleges on average earn around 21% in addition to Welsh Government funding.²⁰ Over the past ten years colleges have generated an additional £1

¹⁷ Of the then 19 FE colleges, 14 FE colleges had a reduction of 1.5%; the budgets of Coleg Harlech/WEA North, WEA South and the YMCA Community College were frozen; and two colleges where there had been sixth form school reorganisation received increased to account for the changes.

¹⁸ FE colleges are required to maintain pay parity with schoolteachers who received a 1% pay increase in 2013/14

¹⁹ St David's Catholic College, Coleg Harlech/WEAN and WEA(S) do not receive WBL funding.

²⁰ Colleges also receive Welsh Government funding for the delivery of work-based learning. Funding is allocated after competitive bidding. The total amount received by colleges in 2011/12 was £45.7m. They also receive other funds such as capital funding and capital maintenance.

billion at today's prices. 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.

FE Sector Income and Expenditure 2011/12

Income	£000	% of total
WG funding (incl WBL, capital maintenance, financial contingency)	365,469	79.1
Tuition fees and education contracts	47,499	10.3
Other income	47,342	10.2
Investment income	1,584	0.3
Total income	461,933	100.0
Expenditure		
Staff	292,931	64.4
Other operating expenses	137,172	30.2
Depreciation	22,796	5.0
Interest payable	1,943	0.4
Total Expenditure	454,842	100

41. In 2011/12 FE colleges made a surplus of just over £7m. This surplus was used to invest in buildings and equipment, improve facilities, and subsidise provision.

42. The Welsh Government financial health requirements state that colleges should have net cash of at least one month's expenditure. This is in order that colleges can pay staff and settle bills as and when they fall due. The Welsh Government places colleges in four different categories related to their financial health. Those colleges which are placed in the highest two categories (A and B) have to have:

"A balance of cash in hand plus bank deposits less adjusted current liabilities that is equivalent to one month's expenditure"²¹

43. Those colleges placed in the lowest two bands (C and D) have less than one month's balance of cash.

44. The total sector spend in 2011/12 was £432m (excluding depreciation). One twelfth of £432 is £36m. Colleges therefore need to have a *minimum* of £36m in cash order to meet Welsh Government rules.

²¹ *Financial Health Monitoring Procedures for FE Institutions from 1 January 2007*, Circular 24/2006, Welsh Government.

45. On top of all this, there is a notional sum of £145m under Financial Reporting Standard (FRS) 17 which covers liabilities arising from the local government pension scheme and which colleges are required to include in their accounts. It is unlikely that colleges will be asked to pay this sum unless they withdraw from the pension scheme or go out of business. This notional figure is greater than the total cash assets.

Looking at the indicative budget allocations for 2014-15, do you have any concerns from a strategic, overarching perspective, or about any specific areas?

46. Colleges welcomed the three year funding cycle for colleges which ran from 2011/12 to 2013/14, although funding allocations for the third year of that cycle were changed.

47. The Programme for Delivery stated that the Welsh Government would work with FE colleges to establish three year funding arrangements that 'will allow for better strategic planning and a more coherent approach to course provision'.²² Colleges had the confidence to make effective plans and to take longer term decisions in the interests of learners. Previously, allocations to each college had often varied from year to year, making it difficult for colleges to plan effectively. We would urge the Welsh Government to continue with a further three year funding cycle to follow on after 2013/14, even though experience has shown that external events can affect overall funding levels.

48. Colleges are currently near to completing negotiations with the recognised 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. 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.

49. Colleges are also likely to face higher 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 assume continued pay restraints within the Public Sector.

50. Colleges have welcomed the Welsh Government's investment of £20m per year over two years in increasing apprenticeships in Wales and are seeking to respond positively to this important initiative. If this allocation is not fully committed then ColegauCymru would welcome discussions with the Welsh Government on how any outstanding sums can be best utilised.

51. Under the Further and Higher Education (Governance and Information) Act, colleges will have increased financial flexibility within the overall context of Welsh Government policies. This is a positive move and recognises the maturity of the FE sector in Wales.

²² *Programme for Delivery Commitment 3/026*, Welsh Government, 2011.

52. There is a major requirement for capital funding to enable colleges can bring their buildings up to a 21st 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. In addition funding for capital maintenance in 2012/13 was £2.5m (a reduction from previous years). This money is vital to ensure colleges maintain their facilities and carry out necessary repairs.

What expectations do you have of the 2014-15 draft budget proposals? How financially prepared is your organisation for the 2014-15 financial year, and how robust is your ability to plan for future years?

53. Colleges have been asked by the Education and Skills Minister to prepare for further reductions in 2014/15 of 'at least 5%' – a reduction of over £15m²³. Such a reduction, if it was indeed to take place, would have a detrimental impact on the services provided by colleges. Colleges would need to balance their need to maintain financial health with their commitment to improving opportunities for disadvantaged learners and to raising skills levels, in the context of the priorities set out by the Minister for Education and Skills. Staff costs make up around two-thirds of college expenditure. Job losses would inevitably result from such a reduction in investment.

What are your views on the Welsh Government's approach to preventative spending and how is this represented in your resource allocation (if appropriate)? By 'preventative spending' we specifically mean 'spending which focuses on preventing problems and eases future demand on services by intervening early'

54. Colleges have taken their own preventative action. As noted through this paper, colleges continue to make efficiencies. Eleven mergers involving colleges have taken place or are currently underway. A ColegauCymru survey in 2011 showed that the mergers that had then taken place had saved an estimated £500,000 per college per year, mainly in management, back office functions. Savings of around £160,000 per college per year have been gained from shared services.²⁴

55. These figures highlight 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.

²³ Letter sent to John Graystone, Chief Executive of ColegauCymru by Huw Lewis AM, Minister for Education and Skills, 2 August 2013.

²⁴ Further Education Colleges in Wales: *Shared Services*. Paper submitted to Welsh Government's FE/HE Policy Group, ColegauCymru, Jan 2011.

Further assistance to the Committee

56. ColegauCymru recognises 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 below inflation funding increases.
57. Sustained investment in FE colleges provides the foundation of an industrial recovery in Wales and a skilled and increasingly productive labour force. 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.