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National Assembly for Wales
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Submitted in hard copy and via email to: SeneddCYPE@assembly.wales

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Dear Llinos

Scrutiny of the Welsh Government Draft Budget 2018-19

We thank the Committee for its continued scrutiny of the budget in relation to higher education, including highlighting issues in relation to the presentation of the baseline figures for higher education (Recommendation 2).

On a point of detail, we are concerned that the Committee's report could inadvertently provide a misleading impression of the funding and financial position of universities without a further note or qualification. Underpinning Recommendation 10, we note that the Committee's report states that:

“... total income for the higher education sector in Wales has increased by approximately £270 million between 2010-11 and 2015-16. This includes both grant funding to higher education institutions (HEIs) - through Higher Education Funding Council for Wales (HEFCW) - and income from students' tuition fees, which makes up the majority of HEIs' income.”

We hope that the following note will assist the Committee in finding the clarification it seeks on the reasoning behind the Welsh Government's decision to invest £10m in higher education for 2018/19.

Since 2010/11, as correctly identified in the report, the total income of universities in Wales grew by £271m to £1,514m in 2015/6, based on official data published by the Higher Education Statistic Agency data and reported by Stats Wales. A more detailed analysis of how university funding works is included in the enclosed guide to university funding and student finance or via this [link](#) for the English version and [here](#) for the Welsh language copy.

In particular, it is noted that:

- The total income figures point to growth in turnover but not to increased surpluses. That is to say, the total income figures as presented in the Committee's report, in particular, do not reflect the costs associated with the activities responsible for generating the increased income. For example, if a university increases income by winning a research grant from a Research Council, this does not provide a surplus which can be spent on other activity since the grant is given for a specific purpose. Indeed, the sector has had reduced surpluses in the three of the five years since 2010/11, and went into deficit in 2014/15. Despite signs of recovery in 2015/16, HEFCW's assessment of the financial health of the sector points out that the surplus levels for 2015/16 is partly due to accounting changes and describes the position in 2015/16 as mixed.¹ It forecasts "the Welsh HEIs' financial results for the next financial year 2016/17, and forecasts for subsequent years, to reflect lower financial surpluses, and deficits in some cases, as well as lower future fee income growth projections."
- It should also be noted that the tuition fee income figures also include income from all students, including overseas students, postgraduate students, and part-time students.
- Staff costs and other operating expenses have also risen significantly over this period. Also it should be noted that 30% of any additional income arising from the maximum fee increase was used specifically for agreed expenditure plans regulated by HEFCW.²
- HEFCW's recent report also concluded (p.9) that 'without increased surpluses and continued government support, there is a risk that Welsh HEIs will be unable to maintain the scale of investment required to meet rising student expectations.
- A recent HEFCW circular states that 'The Welsh Government's 2017/18 budget for higher education represented a reduction of £347.8m, or 77%, since 2010/11. HEFCW allocations to Welsh universities have correspondingly continued to fall, reaching £99m for 2017/18 academic year³ which is the steepest decline of all the UK nations.

The additional income for universities in the 2018/19 budget is absolutely necessary at this stage. It should also be noted that interest payable has nearly tripled over this period from £13.5m to £37.8m, pointing to increased reliance on borrowing. As highlighted in our response to the Finance Committee's consultation on the Draft Budget 2017/18, there remain significant financial risks for universities to manage before the Diamond recommendations in relation to funding are fully implemented. This includes risks in relation to future EU recruitment, international and home recruitment, inflationary cost pressures such as rising construction costs, increased pension liabilities, and significant uncertainties arising from Brexit.

¹ HEFCW Circular W17/33HE Financial position of higher education institutions in Wales: 2015/16 financial results (see [here](#)).

² See for instance HEFCW Circular W14/14HE Fee Plan Guidance 2015/16 ([here](#)).

³ See HEFCW Circular W17/11HE, [here](#).

Please do share this letter with members of the committee on a confidential basis if it is helpful. We would also be happy to come along and chat to you further about how university funding works.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Lisa Newberry'.

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