

Finance Committee
Welsh Government Draft Budget Proposals 2016–17
WGDB_16–17 11 Cardiff University



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Dear Ms Davies

**WRITTEN EVIDENCE FROM CARDIFF UNIVERSITY ON THE WELSH GOVERNMENT
DRAFT BUDGET PROPOSALS FOR 2016-17**

We welcome the opportunity to provide written evidence to inform the scrutiny of the Welsh Government's Draft Budget for 2016/17 by the Committees of the National Assembly for Wales. The Welsh universities play a central role in Welsh life and culture, and contribute more than £4.6 billion a year in gross expenditure¹ to the economy. Cardiff University is building a very positive national and international profile which brings benefits back to Wales:

- Cardiff contributes £2.7 billion annually to the UK economy, generating more than £6 for every £1 it spends². In 2013/14, 1% of all Welsh employment and over 1% of Welsh GVA was generated by Cardiff University. The University generated:
 - GVA of £298 million directly
 - GVA of £300 million in other industries, of which £220 million (three-quarters) related to Welsh businesses
 - 11,410 full-time equivalent jobs³ (of which just over 5,000 were directly employed by Cardiff and 6,000 were generated outside of the university sector).

This substantial contribution to Wales is built on the foundations of public investment in higher education, and the Welsh Government can rightly point to Cardiff University and other Welsh universities as great success stories illustrating the return to the country on investment decisions to date. All areas of Wales benefit from the Welsh universities and their 'knock-on' effects to the local and national economy and society.

Universities are strategic assets of significant importance to a nation and their locations – they are drivers of economic growth and significant contributors to tackling the major challenges facing society through their development of the next generation of leaders and highly-skilled workforce for the knowledge economy, and through their research with application to real-life challenges. Other countries are recognising this role and are

¹ <http://www.uniswales.ac.uk/new-report-launched-the-economic-impact-of-higher-education-in-wales/>

² London Economics, The economic and social impact of Cardiff University, June 2015.

³ Viewforth Consulting Ltd, Economic Impact of Cardiff University 2013/14.



increasing investment in their universities as an investment in their future⁴. It is of grave concern to the future prosperity of Wales and its people that the proposed 2016-17 budget reductions for higher education signal a withdrawal from investment in the nation's future. The impact of the Draft Budget has far reaching consequences for the HE sector and for Wales. Within that context, we set out below our responses to the Finance Committee's consultation questions.

1. *What, in your opinion, has been the impact of the Welsh Government's 2015-16 budget?*

The budget for higher education in 2015-16 was challenging. The funding for the Tuition Fee Grant for Welsh-domiciled undergraduate students was transferred out of the Higher Education Funding Council for Wales (HEFCW) budget, and HEFCW had to make difficult decisions on where to apply the necessary cuts to the allocations made directly to the HE institutions. The Draft Budget for 2016-17 now shows that the Welsh Government under-estimated the amount of funds that would be required for the Tuition Fee Grant (including the amount of funding leaving Wales to fund English universities) as evidenced by the transfer from the Higher Education Funding Council for Wales budget line to the Post-16 learner support budget line of £20,299,000 in the Draft Budget for 2016-17. The loss of this funding from the HEFCW budget increased further the funding gap (calculated to be -23% in 2013/14) with universities elsewhere in the UK (see Appendix for details).

Since 2012, Welsh universities have seen a fall in direct HEFCW funding of £128 million (£269 million to £141 million)⁵. While this was accompanied by the introduction of the £9,000 maximum tuition fee for full-time undergraduate study, this fee income has been eroded steadily by inflation. Furthermore, universities are not able to use all of the fee income to compensate for reduced HEFCW funding as the Fee Plan requires them to spend at least 30% of the new fee income⁶ on new measures to increase equality of opportunity and to promote higher education, most notably on provision of bursaries for widening access – this has 'top-sliced' or removed £1,500 per student from direct spend on teaching provision:

- In academic year 2015/16, after erosion by inflation⁷, the maximum fee is now worth £8,210 and could be worth £7,730 in 2017.
- After the Fee Plan 'top-slice' of £1,500, the maximum fee is reduced further to approximately £6,710 per student in 2015/16, and this could be £6,230 in 2017 (this is referred to below as the 'Residual Fee Income').

⁴ Last year China committed £7.2BN of its education budget towards achieving world-class status for just 100 of its more than 3,000 universities. By 2017, more than £2BN will have been invested in Germany's Excellence Initiative, aiming to create 37 clusters of research excellence and nine excellent universities. A number of strategic funding programmes have been implemented by different countries and regions to promote excellence. Selected universities and research centres in these countries and regions have been provided with extra and concentrated funding to develop excellence of teaching and research. Despite different organisational and management approaches, these initiatives all propose clear aims for excellence, provide adequate funding to selected institutions and research centres, and ensure essential policy support from the governments (Jewels in the Crown: The importance and characteristics of the UK's world-class universities, Russell Group Papers – Issue 4, 2012).

⁵ Taken from figures on p.65 of the Diamond Interim Report.

⁶ New fee income is defined by the Welsh Government and HEFCW as income above the £4,000 baseline fee. Therefore at the maximum fee of £9,000, at least 30% of £5,000 (i.e. at least £1,500 per student) is lost from direct spending on teaching provision.

⁷ Reduction in buying power based on RPI-X of 3%.

Data collected on the costs of HE teaching provision⁸ show that all subject areas cost more to run than £6,230 per student. We are reaching the point where all teaching provision is running at a loss and will be unsustainable without sufficient public funding.

2. *Looking at the draft budget allocations for 2016-17, do you have any concerns from a strategic, overarching perspective, or about any specific areas?*

The Draft Budget allocation for 2016-17 shows that the funds available to HEFCW to allocate directly to Welsh HE institutions will be cut by £41 million from £129 million to £88 million. This amounts to a reduction of more than 30% (on top of a 27% reduction in 2015-16⁹). We understand that this cut could reach £53 million (over 40%) when in-year cuts are taken into account. Without doubt, a cut of this magnitude without new sources of income to compensate would impact negatively on the ability of Welsh universities to compete and thrive within the UK in both teaching and research. It would also impact negatively on their contribution to the economy and society for Wales. For example, the contribution of Welsh universities to Welsh GVA would reduce from the high level of 4.6% (2013) with a proportionate impact on the jobs generated either directly in the universities or in other parts of the Welsh economy.

Given the priorities set out in the Minister's Remit Letter to HEFCW, there are now no areas of direct allocation to the universities from which further savings can be made without undermining priorities for Wales.

- In 2015-16, HEFCW has prioritised direct funding to universities to help sustain undergraduate medicine and dentistry. 2015-16 already saw a 50% reduction in HEFCW funding to this provision; further erosion or loss of this funding will put at risk the education of doctors and dentists within Wales for Wales. These subjects cost more than £15,000 per student per year and clearly cannot be delivered from the Residual Fee of £6,230 alone. At a time when the Health budget is being increased, reducing investment in the next generation of doctors and dentists would be contradictory.
- In 2015-16, HEFCW prioritised direct funding to universities to sustain the research base within Wales following strong performance in the UK Research Excellence Framework. This research base is a vital engine for growth¹⁰ for Wales and for tackling social inequalities. 'Science for Wales' identified that "We need the outcomes of scientific research not only to bring new products, processes and services to the market but also to bring improvements to our health, natural environment and broader welfare". Erosion of the funding for Quality Research and for developing the next generation of researchers will put at risk the research base within Wales through reducing Welsh universities' ability to secure significant UK and EU research income and deliver the impact for the economy and society. Furthermore, this will undermine the Welsh Government's welcome investment in science (Sêr Cymru and the National Research Networks). Leading academics may not come to Wales, preferring instead to go to better funded universities. These cuts could lead to an irreversible spiral of decline for Welsh research.
- In 2015-16, HEFCW prioritised direct funding to universities for part-time study at both undergraduate and postgraduate levels. These are routes to higher education and higher-level skills for people less able to study full-time. In

⁸ TRAC T data collected for English universities for 2010 uplifted by inflation to 2012 when the £9,000 fee was introduced.

⁹ Calculated from the figure for 2014/15 budget (£177 million) on p.65 of the Diamond Review Interim Report.

¹⁰ Russell Group 2015 Report: 'Engines of Growth: The Impact of Research at Russell Group Universities.: <http://www.russellgroup.ac.uk/policy/publications/engines-of-growth-the-impact-of-research-at-russell-group-universities/>

2015/16, Cardiff received HEFCW direct funding to support ca. 6,000 students to study part-time for either an undergraduate or postgraduate taught qualification. Without direct funding, this provision can only be sustained through higher fees.

- In 2015-16, HEFCW had to remove direct funding for full-time postgraduate provision. England is now recognising the importance of supporting full-time postgraduate taught (PGT) provision through the introduction of loans for PGT study to English-domiciled students from 2016-17. PGT education not only benefits the individual but also benefits the economy through bringing higher-level skills into the workforce and increasing earnings potential, and benefits society through increased social mobility through providing entry routes to a wide range of professions. If some individuals cannot take up this opportunity due to lack of access to finance then this represents a barrier to social mobility. This concern has been raised by many groups and individuals, including Alan Milburn in his role as the UK government's independent reviewer on social mobility and child poverty, and the Higher Education Commission¹¹. It is disappointing that the Welsh Draft Budget for 2016-17 gives little, if no, scope to recognise the value of PGT provision to Wales. Welsh universities will be less able than their English competitors to deliver the necessary higher-level skills needed within the knowledge economy.

The recently published Interim Report¹² from the Diamond Review of Higher Education Funding and Student Finance Arrangements in Wales has identified a prevailing view that the current HE funding system in Wales is not sustainable. Adding in the implications of the proposed HE budget cuts, it is ever more important that the final recommendations of the Diamond Review provide a long-term financially sustainable future that supports a high-quality Welsh higher education sector. It is also vital that the Diamond review reports in time to inform the Welsh Government Emergency Budget review following the elections in May 2016 so that Welsh Higher Education is put on a stable footing for the Academic Year 2017-18 (funding for which is partly derived from the latter part of the Welsh Government 2016-17 Financial Year). Furthermore, Welsh universities will be asked to submit their Fee and Access Plans for Academic Year 2017-18 in May/June 2016 – this will not be possible without knowledge of the affordability of the actions that will be set out in these Plans.

3. *What expectations do you have of the 2016-17 draft budget proposals? How financially prepared is your organisation for the 2016-17 financial year, and how robust is your ability to plan for future years?*

If Cardiff University's funding from HEFCW were cut, then the University would, of course, manage its business within the financial constraints effectively, but we might have to make unwelcome strategic choices that may not be in the best interests of the Welsh economy and the communities we serve. To reduce losses in taught provision, we may need to shift the balance of our subjects away from high-cost to lower-cost subjects. Such a shift may not produce the same value to the Welsh economy as the present subject mix. If QR is cut, then we may have to look to other sources such as industry, philanthropy or international partnerships. This could have a longer-term effect on the ability of the Welsh research base to provide the innovation powerhouse the Welsh economy needs. As we have outlined above, there are now no areas in HEFCW's allocation to universities where cuts can be applied without undermining our ability to respond to one or more of the priorities that the Welsh Government has set out

¹¹ UUK Postgraduate Taught Education: The Funding Challenge:

http://www.universitiesuk.ac.uk/highereducation/Pages/PGTfundingChallenge.aspx#.VnmnY_mLRD8

¹² <http://gov.wales/topics/educationandskills/highereducation/review-of-he-funding-and-student-finance-arrangements/?lang=en>

for Wales. We value our contribution to Wales very highly and have made strategic investments in a number of flagship health and community projects that we would not wish to see imperilled.

The University will be investing in its physical and IT infrastructure in the coming years to ensure that it meets the high standards deserved by our students and our academic endeavours. Other Russell Group universities are investing in their estate and we need to remain internationally competitive to protect the long-term health and sustainability of the University. Our competitiveness depends on the ability to maintain our capital investment programme despite the loss of capital funding from HEFCW, and we would not wish to see the future success of Wales's leading university compromised, given our importance to the knowledge economy and economic development more generally.

4. *The Committee would like to focus on a number of specific areas in the scrutiny of the budget, do you have any specific comments on the areas identified below?*

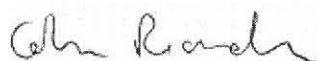
- Preparation for the Wales Bill*
- Local health board financial arrangements:*
 - The reduced budget for higher education may lead to cuts in funding to support medicine and dentistry delivery. This could lead to a reduction in the numbers of doctors and dentists being trained by the Welsh HE system, reducing income to the NHS from placement activities, and affecting the supply of skilled staff into the medicine and dentistry sectors, leading to greater recruitment costs and increased use of agency staff.
- Approach to preventative spending and how is this represented in resource allocation (Preventative spending = spending which focuses on preventing problems and eases future demand on services by intervening early):*
 - A key tenet of preventative spending is that it is evidence-based. Universities are the main provider of robust, independent peer-reviewed research. Wales needs a university sector with strong social science and healthcare research to ensure effective evaluation of interventions in the public realm, and inform the direction of future resources.
- Sustainability of public services, innovation and service transformation:*
 - Investment in higher education can generate savings in public service delivery through innovation and service transformation. Innovation in public services is a key research and practice theme for Wales's Universities. Again the University model allows the robust scrutiny and testing of the effectiveness of different approaches. In one example of partnership working in this area, Cardiff University and Nesta, working with the Welsh Government, have established a new lab for public services innovation. The University invests £300,000 per year in 'Y Lab' which is working to devise and test new solutions to major public services challenges in Wales, addressing a number of Welsh public service projects. The aim is to bring practical support, contributing to the Welsh Government's agenda of promoting innovation across public services in Wales. The Public Policy Institute for Wales is another example of how reform and improvement of public services in Wales is being supported by universities working collaboratively to build the evidence base. The proposed budget cuts could impact upon the sustainability of public services, innovation and service transformation if the Welsh universities are less able to contribute to these types of activities.
- Welsh Government policies to reduce poverty and mitigate welfare reform:*
 - The reduced budget for higher education may lead to cuts in funding to support widening access, retention, and part time study. Increased access to higher education supports social mobility through increasing life chances. Graduates are more likely to be employed, more likely to enjoy higher wages

and better job satisfaction, and more likely to find it easier to move from one job to the next. Higher education enables individuals from low-income backgrounds to enter higher status jobs and increase their earnings. Graduates also enjoy substantial health benefits, including a reduced likelihood of smoking, and lower incidence of obesity and depression. They are less likely to be involved in crime, more likely to be engaged with their children's education and more likely to be active in their communities. In short, graduates are wealthier, healthier and happier.¹³

- *Impact of the Welsh Government's legislative programme and whether its implementation is sufficiently resourced*
- *Scrutiny of Welsh language, equalities and sustainability:*
 - The reduced budget for higher education may lead to cuts in funding to support Welsh medium higher education delivery.

To conclude, we understand that the Government needs to make difficult decisions when allocating its budget. However, over the last few years the Higher Education budget has seen substantial reductions and there are now no areas from which further savings can be made without serious consequences. Past public investment in Welsh universities has built a strong and diverse higher education sector able to serve the needs of Wales. The proposed Draft Budget for 2016/17 puts at risk the return on that investment and the future sustainability of excellent higher education in Wales. It will be vital that the outcomes of the Diamond Review of higher education funding and student finance lead to a sustainable future but action will be needed ahead of those outcomes through provision in the 2016/17 budget.

Yours sincerely



Professor Colin Riordan
Vice-Chancellor

¹³ From the Government 2012 report, *University Challenge: How Higher Education Can Advance Social Mobility*, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/80188/Higher-Education.pdf

Appendix: Total net income and FTE for England, and Wales 2011/12 to 2013/14

This Table shows that, on a real terms basis, taking inflation into account using the Gross Domestic Product (GDP) deflator, the income to universities in Wales has decreased between 2011/12 and 2013/14 overall, by 2.7% on a cumulative basis. It also shows that in 2013/14 Welsh universities' income per student FTE was 23% lower than that received by English universities.

Country of institution	Year	Total net income (£)	Total FTE	Income per FTE (£)	% Difference England vs Wales in income per FTE
England	2011/12	23,150,426	1,610,393	14.38	
	2012/13	24,234,875	1,554,737	15.59	
	2013/14	25,468,775	1,542,057	16.52	
Wales	2011/12	1,274,144	102,305	12.45	-15%
	2012/13	1,304,833	101,459	12.86	-21%
	2013/14	1,377,312	102,529	13.43	-23%

Notes: Income data are taken from the HESA FSR (which are consistent with but not exactly the same as the financial statements).

FTE data are taken from the HESA student record.

For the purposes of this table, the OU is counted as a wholly English institution.

Not all income shown here will be student-related, it is used here as a means of comparison.