

Welsh Government Draft Budget proposals for 2016-17

Evidence from the Higher Education Funding Council for Wales (HEFCW)

Introduction

1. HEFCW regulates fee levels at universities, ensures a framework is in place for assessing the quality of higher education and scrutinises the performance of universities and other designated providers. Our role has evolved to pay particular attention to areas where market solutions do not lend themselves eg widening participation to higher education, encouraging and funding part-time enrolments and supporting subjects such as clinical medicine where costs are much higher than tuition fee income.
2. We use resources from the Welsh Government and others to secure higher education (HE) learning and research of the highest quality, make the most of the contribution of HE to Wales's culture, society and economy and ensure, working with Estyn, the provision of accredited teacher training.
3. Higher education makes a major contribution to the economy of Wales, sustains large numbers of high-skilled jobs and provides a substantial short-term return on government investment. It also generates the knowledge and highly skilled employees essential to the medium and long-term growth of the Welsh economy. It can only make this contribution to Welsh economy and society if it receives sufficient investment to retain and develop its core infrastructure and to remain competitive in a UK and international context.
4. In the context of the need for higher education to be competitive within an UK and international market, this submission provides, for context, information on changes which have happened to the funding of higher education in recent years and then indicates the likely consequences of the further cuts which are proposed in the recently published draft budget.
5. We recognise that difficult choices have to be made in terms of public expenditure and that these decisions are the responsibility of Government. We do, though, have a responsibility to provide advice, both to Government and to the Assembly, on the potential consequences of policy decisions. As we illustrate in this submission, we consider that the proposed cuts to the higher education budget threaten to undermine Welsh Government priorities for securing economic growth and the provision of public services, including health care, in Wales.

Summary

6. The bullet points below are the key issues raised in this response to the Finance Committee's consultation on the Welsh Government's Draft Budget proposals for 2016-17.

- Between Academic Year (AY) 2011/12 and AY 2015/16 HEFCW funding to HE providers in Wales has reduced by £216m to £151m on account of the increasing cost of the Welsh Government fee grant for students over that period (see Table 1). By AY 2015/16 the fee grant cost is estimated to be significantly higher than the total funding that HEFCW allocated for full-time undergraduate (FTUG)/PGCE teaching in AY 2011/12 and substantially higher than the original estimated cost (originally estimated to cost 35% of our teaching grant).
- This compares to a reduction in Higher Education Funding Council for England (HEFCE) revenue grant funding for HE providers in England for the same period of 51% (see Table 2). Consequently the HEFCW funding allocated to Welsh HE providers has already been reduced by 10 percentage points more than the equivalent funding for HE providers in England (equating to around £39m less in funding for Welsh HE providers).
- During the same period HEFCE's capital funding has increased by 229% whereas HEFCW capital funding has remained stable at a minimal level with no recurrent teaching capital funding available.
- The comparison in Table 2 of HEFCE and HEFCW funding available to HE providers in England and Wales does not include tuition fee income. Tuition fee income does not need to be taken into account in this comparison as HE providers in both England and Wales are able to charge the same FTUG/PGCE fees of up to £9,000 per student per year.
- HEFCW has already had to make difficult decisions as a consequence and funding reductions have had to be implemented in other areas of strategic priority including innovation, part time provision and strategic funding.
- Whilst the AY 2016/17 HEFCE budget is not yet known the recent Comprehensive Spending Review (CSR) made commitments to protect science and research funding in real terms and whilst there will be further reductions in HEFCE teaching funding the CSR indications do not imply reductions of 32% as proposed in the Welsh Government HE budget.
- The proportion of the fee grant that is paid to HE providers outside Wales has increased each year to a total cost of £89m in AY 2014/15, being approximately 40% of the total fee grant cost for that year. UCAS recruitment reports for AY 2015/16 indicate that the increase in the proportion of Welsh domiciled students studying at UK HE institutions outside Wales has continued.

- Neither HEFCW nor the Welsh Government are able to implement controls to limit the cost of the fee grant paid to HE providers outside Wales.
- If the HE budget is reduced to £88m from April 2016 as proposed our modelling indicates that in AY 2016/17 the Welsh universities' total income from HEFCW funding and the increased fee income under the new regime for all home and EU students¹ will be less than the total HEFCW funding paid to HE providers in AY 2011/12 prior to the introduction of the new fee regime.
- The draft budget for FY 2016-17 would provide funding of approximately £87m to be allocated in AY 2016/17 to Welsh HE providers to invest in strategic priorities. £87m is less than the total fee grant paid in AY 2014/15 to HE providers in the rest of the UK. The equivalent fee grant cost for AY 2016/17 based on current trends is likely to be higher again and consequently the Welsh Government will be paying more in fee grant to HE providers outside Wales than will be invested in recurrent grant funding (excluding fee grant) to HE providers in Wales.
- We have significant concerns that the proposed budget allocations for HE will have a detrimental impact on the capacity of Welsh universities to compete as successfully as they have to date with other UK providers and global competitors in attracting students, both from the UK and International students, in attracting staff and securing research grants and contracts.
- Even in the event of no further funding reductions in FY 15-16 or FY 16-17, and only a 2.5% increase in the fee grant cost in FY 16-17 the HEFCW funding allocation for AY 16/17 would reduce to approximately £126m. This on its own would have been a reduction of £25m (17%) in HEFCW funding.
- HEFCW recurrent funding is allocated mainly to the priority areas of research, part-time provision and expensive subjects (medicine, dentistry and performing arts).
- Universities use HEFCW research funding (QR) as core funding to competitively win some 60% further investment from the Research Councils. Reducing QR will reduce research activity and make Welsh universities and the Welsh economy less competitive.
- Universities use HEFCW part-time funding to keep down the cost of part-time courses, key to widening access to students from disadvantaged backgrounds and delivering high-level skills. The resulting increase in costs of a reduction in HEFCW funding is likely to see recruitment fall dramatically.
- Universities use the expensive subject funding for full-time undergraduate medical, dentistry and performing arts courses which cost more than the maximum fee of £9,000. Reductions in this funding could reduce the capacity

¹ i.e. the fee income over and above the tuition fee payable in 2011/12 of £3,375 with annual increases, for Welsh, EU and rest of UK students.

of Welsh Medical Schools and conservatoire to deliver quality training and attract the best students.

- The CSR confirmed the UK Government's proposals to make postgraduate study loans available to English domiciled students from AY 2016/17 wherever they choose to study in the UK. There is strong competition for postgraduate students and it will be important for Welsh universities to be able to offer similar incentives and funding arrangements to Welsh domiciled students. HEFCW funding to support postgraduate taught provision has been reducing since 2011/12. The proposed budget reduction for FY 2016-17 may mean that no further funding for postgraduate study will be available from HEFCW after AY 2015/16.
- Reductions in the strategic funding available to support Welsh medium provision is likely to halt the development of the Coleg Cymraeg Cenedlaethol's provision and impact on the capacity of HE providers to develop the use of the Welsh language across the full range of their activities.
- The funding reductions will have a differential impact on individual universities and some may find it challenging to manage the financial impact of such large reductions. HEFCW will not have any financial reserves to offer financial support for future financial shortfalls and longer term restructuring.
- The absence of general capital funding for HE in Wales and lower financial surpluses already means that Welsh universities have a more limited ability to invest in their estate than their UK counterparts. Any investment must be funded through commercial borrowing, with implications for universities' capacity to repay their borrowings when due if HE funding is reduced further.
- A reduction of HEFCW funding of approximately £52m from AY 2015/16 to AY 2016/17 along with increasing staff overhead costs is likely to impact on universities' ability to plan in the mid to long term and could lead to a higher number of fixed-term contract roles and a modest estimate of more than a thousand job losses.
- Higher education is a major economic contributor and industry in itself and generates some £2.4bn of Welsh Gross Value Added (GVA) (equivalent to 4.6% of the Welsh total) and creates almost 50,000 jobs in Wales (3.4% of the Welsh total), with a quarter of the GVA (£597m) and jobs (11,783) created by Welsh universities being in parts of Wales that do not have a university on their doorstep. Consequently the proposed funding reductions for HE will not only have an impact on the universities and their local communities but more widely throughout Wales.

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

7. Table 1 below summarises the funding allocations made by HEFCW to HE providers in Wales since the Academic Year ending 31 July 2012 (AY 2011/12). The new fee arrangements for full-time undergraduate and PGCE students (FTUG/PGCE) were introduced in AY 2012/13 and, since then, an increasing proportion of the HEFCW budget has been allocated to cover the fee grant cost² for Welsh and EU domiciled students studying in Wales and Welsh students studying in the rest of the UK.
8. From 1 April 2015 a decision was taken by the Minister to transfer the fee grant cost from the HE budget to the post 16 support budget, and consequently the HE budget was reduced substantially in the Welsh Government Financial Year ending 31 March 2016 (FY 2015-16). In addition, the transfer of funding for the fee grant from HEFCW to the Welsh Government also meant that we were no longer able to apply the fee grant cost controls that we had developed since AY 2013/14 to manage some of the unintended consequences of the new fees and funding regime³. Since the introduction of the new fee regime in AY 2012/13, student number controls only operated in 2012/13, being replaced in 2013/14 by the maximum fee grant arrangements. The maximum fee grant controls that we introduced could only be applied to Welsh universities. HEFCW could not apply similar controls to the fee grant cost paid to HE providers outside Wales and therefore neither we nor the Welsh Government have ever been able to implement controls to limit the cost of the fee grant paid to HE providers outside Wales.

Table 1

HEFCW allocations AY £m	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Teaching FT UG/PGCE	209	81	48	15	15	
Research	76	76	76	78	79	
Teaching Part Time (PT) UG	35	39	33	31	27	
Postgraduate Taught (FT and PT)	16	16	15	7	7	
Innovation Strategic Funding	7	8	3	2	-	
Strategy and Initiative allocations	24	37	35	29	23	
Total allocations to HE providers	367	258	211	162	151	87

² This fee grant (a non-repayable grant towards fees for students from Wales wherever they study in the UK) cost represents the difference between the tuition fee cost in 2011/12 and the increased tuition fee from 2012/13, up to maximum fee of £9,000, for FTUG/PGCE students.

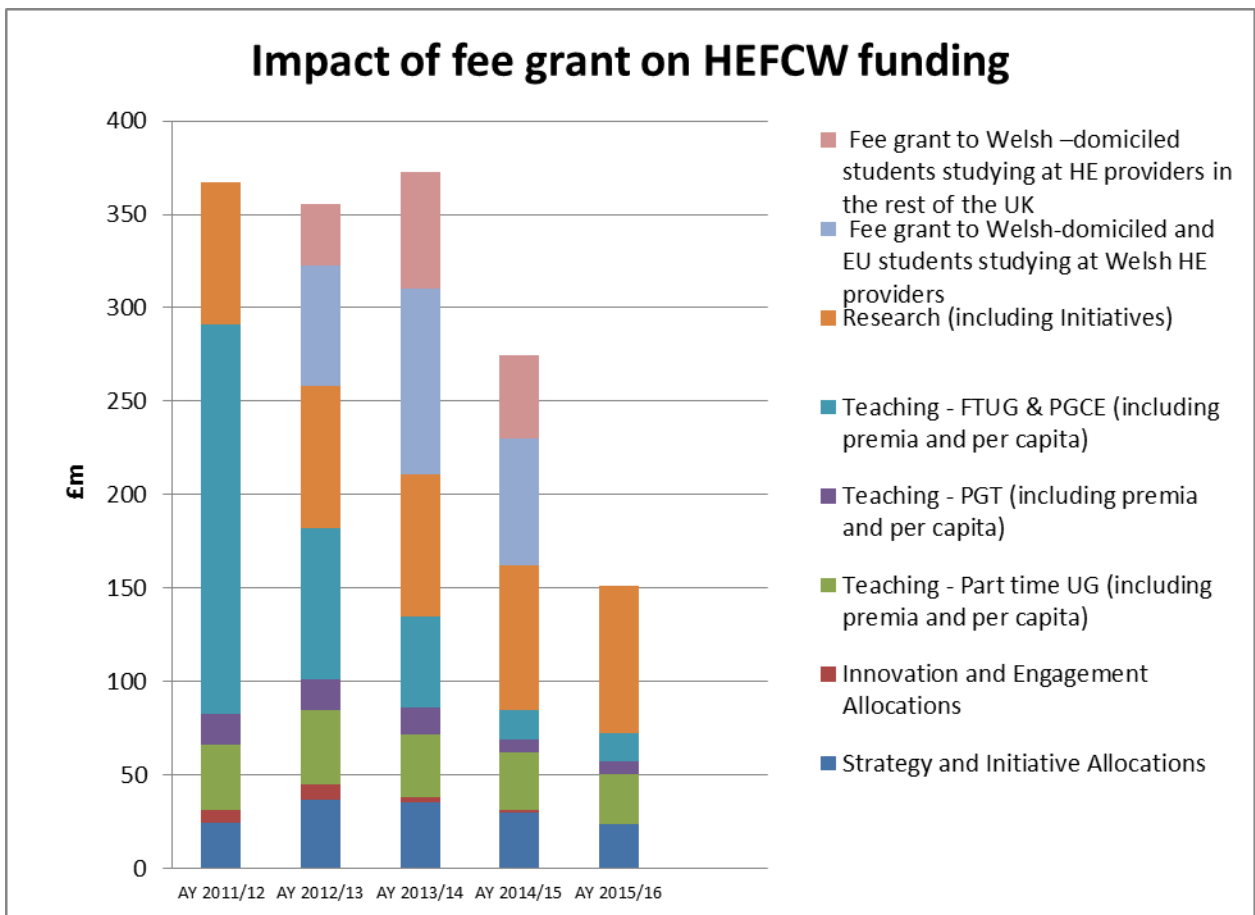
³ Circular [Maximum Fee Grant Arrangements 2013/14](#) (W12/38HE) refers.

Fee grant payments to Welsh HE providers	-	65	99	67	-	-
Fee grant payments to other UK HE providers	-	33	62	45	-	-
Total Fee grant cost	-	98	161	112	-	-
Total funding allocation	367	356	372	274	151	87

Note:

1. The allocations for AY 2011/12 to 2014/15 in table 1 represent the actual recurrent payments made from HEFCW Grant in Aid for those years. The allocation for AY 2015/16 is based on our latest estimates of allocations for that year and the total funding available for AY 2016/17 of £87m is based on the funding proposed in the Welsh Government FY 2016-17 budget.

2. Strategy and Initiative allocations comprised mainly funding for reconfiguration and collaborations including the mergers to form the University of South Wales (USW) and the University of Wales Trinity Saint David (UWTSD) as well as funding for the Coleg Cymraeg Cenedlaethol.



9. Between AY 2011/12 and AY 2015/16 the HEFCW allocations to Welsh HE providers have fallen by £216m as a result of the increasing cost of the fee grant over that period. By AY 2015/16 the fee grant cost was significantly higher than the total funding that HEFCW allocated for FTUG/PGCE teaching in AY 2011/12

and substantially higher than the original estimated cost (originally estimated to cost 35% of our teaching grant). As a consequence, funding reductions have had to be implemented in other areas of strategic priority including innovation, part-time provision and strategic funding.

10. Table 2 below summarises the revenue funding available for HEFCW and HEFCE to allocate between AY 2011/12 and AY 2015/16 and provides a comparison of the relative revenue funding reduction borne by Welsh higher education providers compared to those seen by HE providers in England to date. Whilst the AY 2016/17 HEFCE budget is not yet known the recent Comprehensive Spending Review (CSR) made commitments to protect science and research funding in real terms and whilst there will be further reductions in HEFCE teaching funding the CSR indications do not imply reductions of 32% as proposed in the Welsh Government HE budget.
11. The comparison in Table 2 below does not include tuition fee income. Tuition fee income does not need to be taken into account in this comparison as HE providers in both England and Wales are able to charge FTUG/PGCE fees of up to £9,000 per student per year.

Table 2

HEFCE and HEFCW funding 2011/12 and 2015/16 excluding capital

	Funding category	Funding allocated to institutions (£m)					Change 2011/12 to 2015/16	Percentage change 2011/12 to 2015/16
		2011/12	2012/13	2013/14	2014/15	2015/16		
HEFCE	Teaching	4,317	3,233	2,325	1,582	1,320	-2,997	-69%
	Research	1,558	1,558	1,558	1,558	1,506	-52	-3%
	HE Innovation Fund (HEIF)	150	156	160	160	160	10	7%
	Other	237	177	149	143	102	-135	-57%
	Total	6,262	5,390	4,472	3,443	3,088	-3,174	-51%
HEFCW	Teaching	260	137	94	53	52	-209	-80%
	Research	77	77	77	77	76	0	-1%
	Innovation & Engagement Fund (IEF)	9	11	6	0	0	-9	-100%
	Other	39	35	39	28	23	-16	-42%
	Total	385	259	215	158	151	-234	-61%

Source: HEFCE website, HEFCW annual reports, HEFCW's funding allocations circular. Fee grant payments and estimates for AY 2015/16 are excluded from the HEFCW figures. HEFCE figures are taken from early summary of allocations adjusted by final allocation documents.

Note: During the same period HEFCE's capital funding has increased by 229% whereas HEFCW capital funding has remained stable at a minimal level with no capital funding available for teaching.

12. The reduction in HEFCW funding allocations between AY 11/12 and AY 15/16 (based on the published funding for AY15/16) is £234m, a reduction of 61%. This compares to a reduction in HEFCE revenue funding for the same period of 51% after taking account of the in-year funding reduction to HEFCE announced in July 2015. Consequently the HEFCW funding allocated to Welsh HE providers has already been reduced by 10 percentage points more than the equivalent funding for HE providers in England (equating to around £39m less in funding for Welsh HE providers compared to HE providers in England).
13. Whilst the reduction in HEFCW funding has been partly offset by the increased fee for FTUG/PGCE students at Welsh HE providers since AY 2012/13 it is worthy of note that the proportion of the fee grant that is paid to HE providers outside Wales has increased each year to a total cost of £89m in AY 2014/15 being approximately 40% of the total fee grant cost for that year. UCAS recruitment reports for AY 2015/16 indicate that the increase in the proportion of Welsh domiciled students studying at UK HE institutions outside Wales has continued and this trend is unlikely to change unless HE providers in Wales are seen as being equivalent to their competitors in the rest of the UK in terms of funding and facilities and other support available for students.
14. The capacity for Welsh universities to continue to earn income from non-government sources, and thereby to sustain or increase their current economic contribution to Wales, depends essentially on their capacity to attract high quality staff and good students. They need to be able to do so in the context of a highly competitive UK and international market. Key to this is their competitive position vis-à-vis England, which is why the relative funding levels between England and Wales are so significant.
15. The financial statements for the year ended 31 July 2014 indicate that, overall, the income of Welsh universities has increased by approximately 8% since 2011/12. However, most of that increase derives from competitively won research grants, other commercial activities such as consultancy and recruitment of overseas students. There has been an increase in fee income from UK students since the introduction of the new fee regime in 2012/13; however, this increase is lower than previously anticipated and, for each UK student, a substantial proportion of the increased fee income has to be spent on their teaching provision as well as fee plan commitments. Overall the proportion of Welsh universities' total income that comes from Funding Council grants and fees for UK students has stayed largely unchanged at 54% in 2011/12 and 53% in 2013/14.
16. If the HE FY budget is reduced as proposed to £88m from April 2016 our modelling indicates (based on reasonably generous assumptions in terms of continuing growth in student recruitment and fees for Welsh HE providers) that in AY 2016/17 the Welsh universities' total income from HEFCW funding and the increased fee income under the new regime for all home and EU students⁴ will

⁴ i.e. the fee income over and above the tuition fee payable in 2011/12 of £3,375 with annual increases, for Welsh, EU and rest of UK students.

be less than the total HEFCW funding in AY 2011/12 prior to the introduction of the new fee regime.

17. The FY 2015-16 budget was a challenging budget for HE providers in Wales and difficult decisions had to be made by HEFCW in allocating funding to areas of strategic priority and in order to respond to our Ministerial remit. As most undergraduate and PGCE full-time students had transitioned to the new fee regime (introduced in AY 2012/13) by AY 2014/15, it was assumed that there would not be a need for significant further reduction to be made to the HE funding allocations in FY 2016-17. HEFCW funding is allocated to HE providers for academic years starting in August and ending in July. The academic year is the same as the financial year for HE providers and consequently they prepare their financial statements for the 12 months ending 31 July. The Welsh Government budget provides funding to HEFCW based on the Welsh Government financial year (FY) ending 31 March, therefore the allocations to HE providers for academic year (AY) 2015/16 include funding from the first four months of the FY 2016-17 budget (April to July 2016). The HEFCW allocation to HE providers for AY 2015/16 was based on an assumption that the level of funding for HE for FY 2016-17 would be similar to the FY 2015-16 budget subject to a reduction equivalent to an increase in the fee grant cost of 2.5%. This provided an assumed budget for FY 2016-17 of £119m. The draft budget for FY 2016-17 is significantly lower than this at £88m and may require significant in-year funding reductions to be made to the sector in the current academic year 2015/16 as well as next year.

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

18. The proposed budget allocation for HE for FY 2016-17 is a £41m reduction in the funding available for allocation to HE providers in Wales. This represents a funding reduction of 32% between FY 2015-16 (£129m) and FY 2016-17 (proposed budget of £88m). It is generally sensible to avoid applying late in-year cuts to funding for HE providers. If the Council were to seek to avoid applying an in-year cut in AY 2015/16, all the impact of this proposed FY 2016/17 cut would have to be applied to AY 2016/17, which would represent a 40% cut (approximately £52m) between AY 2015/16 and 2016/17.
19. We have significant concerns that the proposed budget allocations for HE will have a detrimental impact on the capacity of Welsh universities to compete as successfully as they have to date with other UK providers and global competitors in attracting, supporting and retaining students, both from the UK and international students, in attracting staff and in securing research grants and contracts. We have set out below how our funding for AY 2015/16 was allocated between the Welsh Government priority areas:

AY 2015/16 Funding Allocations	£m	% of total funding
Quality Research (QR) & Postgraduate Research (PGR)*	79.4	53%
Part-time Teaching - Postgraduate Taught (PGT) & Undergraduate (UG)**	35.2	23%
Expensive Subjects	15.1	10%
Other Strategic Funding	21.4	14%
Total Allocations AY 2015/16	151.1	

* includes Sêr Cymru I & II,

**includes Open University mitigation funding

20. The FY 2015-16 funding available for allocation to HE institutions will amount to £122.5m once the maximum estimate of the fee grant cost has been taken into account. There is a final adjustment proposed to the HE budget to reflect the higher fee grant cost. We understand that this adjustment, which will reduce the HE budget for FY 2015-16 by £4.1m and increase the Post-16 support cost budget by the same amount, will be reflected in the supplementary budget for FY 2015-16.
21. In determining the funding allocation for AY 2015/16 our assumption was that there would not be further funding reductions in the HE allocation other than as a consequence of increases in the fee grant cost. We assumed that the fee grant cost would increase by 2.5% to take account of additional costs for courses that have a duration of more than 3 years and some growth in the average fee charged. Even in the event of no further reductions in funding in FY 15-16 or FY 16-17, and only a 2.5% increase in the fee grant cost in FY 16-17 (which itself amounts to £6m) the HEFCW funding allocation for AY 16/17 would have reduced to approximately £126m. This on its own would have been a reduction of £25m (17%) in HEFCW funding.
22. Some of this £25m reduction in funding was anticipated to come from areas of non-recurrent funding which could not be extended beyond AY 2015/16 due to the funding position and from areas where contractual commitments were due to end. These non-recurrent funding streams include the Strategic Development Fund (which has been used to support the mergers at the University of South Wales (USW) and the University of Wales Trinity Saint David (UWTSD) as well as to provide transitional funding for Glyndŵr University to enable them to appoint an interim executive to stabilise the University), funding for UHOVI⁵, strategic funding and funding support for the Coleg Cymraeg Cenedlaethol. The ending or reduction of these funding streams would allow us to reduce funding allocations by £12m in AY 16/17 with the balance of funding reductions of £13m having to come from the remaining recurrent funding for the priority areas of research, part-time provision and funding for expensive subjects which are medicine, dentistry and performing arts. A £13m reduction would have represented a 10% reduction compared to the AY 2015/16 total recurrent funding. However the draft budget for FY 2016-17 implies a much higher

⁵ UHOVI is delivered by the University of South Wales and provides opportunities to study in communities in the heads of the valleys areas.

reduction and would provide funding of only £87m to be allocated in AY 2016/17 for these strategic priorities. £87m is less than the fee grant cost for AY 2014/15 paid to HE providers in the rest of the UK. The equivalent fee grant cost for AY 2016/17 based on current trends is likely to be higher again and consequently the Welsh Government will be paying more in fee grant to HE providers outside Wales than it invests in recurrent grant funding (excluding fee grant) in HE providers in Wales.

23. We're aware that approximately £22m of the funding reduction is accounted for as a transfer to the fee grant budget and, based on current trends from UCAS data, we can expect that more than 40% of this funding will leave Wales as fee grant for Welsh domiciled students studying outside Wales. However, the forecasts for these costs are very difficult to predict at this stage and we believe that the assumptions and forecasts that support the fee grant budget should be further reviewed before the final budget is determined and that there is some flexibility built into the budget such that any underspend in the fee grant budget can be retained in the HE budget line.
24. HEFCW recurrent funding is allocated mainly to the priority areas of research, part-time provision and expensive subjects (medicine, dentistry and performing arts).

Research

25. The funding allocation table above for AY 2015/16 shows that 53% of HEFCW's budget is currently allocated in support of research activity. HEFCW has up to now given priority to protecting QR (and Postgraduate Research, known as PGR) in the face of an increasing FTUG/PGCE fee grant commitment. This is in a context where, as a proportion of the total recurrent research funding made available by the UK HE funding bodies, the share made available to Wales via HEFCW's QR is already falling. Wales' proportion of total UK QR funding dropped from 4.3% in AY 2007/08 to 3.9% in AY 2013/14.
26. The consequences that would result from a reduction in QR funding are as follows:
 - *A decline in external (Research Council) investment*
27. Research funding (QR) underpins the dual support system for research in Wales. QR equivalent funding is allocated by all the other UK higher education funding bodies to underpin the UK wide operation of the dual support system⁶ for investment in research. Our QR investment facilitates the capture of more than 60% more funding for Welsh universities from the UK Research Councils. Additionally it facilitates the capture of around 180% more funding from sources other than the Research Councils, including UK industry, UK central government and the EU.

⁶ Dual support system is where HE funding bodies such as HEFCW provides research funding in the form of a block grant to support the research infrastructure, while other bodies such as Research Councils provide grants for specific projects.

28. However, attracting external research income is an extremely competitive process, whereby universities in Wales compete against the very best across the UK and in Europe. The availability of QR is essential to underpin bids submitted by universities in Wales by funding high quality researchers, facilities and equipment. Reducing QR would therefore directly impact on research activity at Welsh universities, with implications for the competitiveness of Wales' leading universities, and for the delivery of the Welsh Government's own commitment regarding Welsh Higher Education research income⁷.
- *Substantial damage to the Welsh research environment*
29. Welsh universities performed strongly in the UK-wide Research Excellence Framework (REF2014). More than three-quarters (77%) of the research submitted by universities in Wales in 2014 was assessed as world-leading or internationally excellent, compared to just under half (49%) in 2008. Moreover, 49% of the research submitted was judged to be world-leading in terms of its impact in life beyond academia, compared to 44% across the UK as a whole. Wales had previously been commended⁸ for the efficiency of its research base, with a warning that the relatively low investment in its research base is not sustainable. This was also seen in REF2014, where universities in Wales were below the UK benchmark in relation to the research environment element of the assessment. Any reduction in the underpinning support HEFCW provides via QR funding would be detrimental to the ability of universities to invest in a quality research environment and would jeopardise their performance in future REF exercises.
- *Undermining of the delivery of Welsh Government's strategies for research and innovation*
30. The Welsh Government's innovation strategy, Innovation Wales⁹ has established Wales' Smart Specialisation approach on the strengths of its academic research base. A reduction in funding would therefore have implications for Wales' research and innovation base and economic development, as university research supports the provision of jobs and economic growth in Wales. This would impact significantly on the ambition for Wales of being a 'small and clever country' and the ambition of increasing the country's economic output as measured by GVA. Further, the Welsh Government is currently leading a bid to BIS to undertake a Science and Innovation Audit, based on evidence of identified world-leading research and technology strengths and fit with current strategic investments. These Audits will help drive future investment by the UK Government. A reduction in the funding of the underpinning research base in Wales could have implications for the ability of our universities to compete in UK-wide competitions such as the UK Research Partnership Investment Fund.

⁷ Programme for Government, Education, Improving Further and Higher Education includes the indicator: "measure Welsh HE research income derived from competitive sources, as a percentage of the UK total".

⁸ [International Comparative Performance of the Welsh Research Base 2013](#)

⁹ [Innovation Wales](#)

31. HEFCW's funding allocation currently includes commitments to two Welsh Government programmes: Sêr Cymru I aims to build upon and enhance research capacity in Wales by supporting research stars and National Research Networks; Sêr Cymru II will focus on attracting talent at mid-career stage by funding a cohort of Senior Research Fellows. Both programmes provide investment in the research base that will enable universities to secure additional external, competitively-won research funding to Wales from UK Research Councils and the European Union.
32. HEFCW's decision to co-fund Sêr Cymru II was made on the basis of the fact that it will help to lever additional European funding into the HE sector. However, the Sêr Cymru programme (and other Welsh Government strategic investments in Welsh universities' research and innovation capacity, such as e.g. SMART Expertise, Health and Care Research Wales) are intended to build on and strengthen the existing capacity within the sector, ie they build on core infrastructure within our universities provided by HEFCW's QR and PGR. A reduction in the underlying QR/PGR funding would be damaging to current and planned Welsh Government investments but will be very difficult to avoid with the current funding proposed in the FY 2016-17 budget.
33. If we were to maintain the current levels of funding for QR, PGR and Sêr Cymru in the context of the significant funding reduction proposed in the draft budget for FY 2016-17, this would leave approximately £8m to allocate for the other strategic priorities: part-time provision, expensive subjects and strategic allocations such as the Coleg Cymraeg Cenedlaethol. In AY 2015/16 these other strategic priorities had funding of over £70m in total. The following paragraphs deal with the consequences of funding reductions to these key areas.

Part-time provision

34. If there are further reductions in part-time funding it would no longer be feasible to expect the sector to keep part-time fee levels at rates equivalent to those charged in AY 11/12. It is then likely that part-time recruitment to Welsh HE providers will start to fall as dramatically as it has in England. The report prepared by the Wales Institute of Social and Economic Research, Data and Methods (WISERD) to inform Sir Ian Diamond's review of Higher Education Funding and Student Finance Arrangements in Wales, provides further evidence of the challenges faced by providers of part-time HE ([WISERD part-time report](#)). A reduction in part-time recruitment will have a detrimental impact on the up-skilling and re-skilling that is essential for delivering the high-level skills required for economic growth. In addition, a reduction in HEFCW funding would also have implications for support of the development of the employability skills of students so that they can make an ever swifter contribution to the Welsh economy. It will also have an adverse impact on widening access to HE as part-time learning is a key means of opening access to higher education for those from disadvantaged backgrounds. A reduction in part-time provision is likely to impact on work to reduce poverty in areas of multiple deprivation like Communities First areas, where some progress has been made in encouraging entry to higher education and opportunities for upskilling.

Expensive subjects

35. Reducing the remaining expensive subject premium for full-time undergraduate medicine and dentistry provision will adversely affect the capacity of the Medical Schools in Cardiff and Swansea to deliver quality training to meet the requirements of the Health Service in Wales. The expensive subject premium is a contribution towards making up the difference between the higher costs of medical provision and the maximum fee of £9,000. A further reduction in this funding will increase the deficit with the equivalent funding available for medical university provision in England and will reduce the competitive ability of Welsh universities to attract the best medical students. Many medical students stay in the locality of their university when they start in employment. The Welsh NHS needs Welsh Medical Schools that can attract and retain high quality students and medical teaching staff to maintain a flow of new doctors into Wales. A reduction in funding may lead to a perception by students and potential new medical staff that there is less funding available for training in Wales than in other UK medical schools. If this funding premium can no longer be funded from the HE budget then a consequence may be that funding the medical training provision could become a cost of the Welsh Government Health budget and would not therefore represent a real reduction in the Welsh Government expenditure. Funding may then be required to pick up the health consequences of insufficient funding being invested in prevention (ie the training of doctors for Wales). The Health Professional Education Investment Review has proposed some fundamental change including the establishment of a single body to oversee workforce planning, development and commissioning of education and training. There may well be further proposals to be made in view of the changes proposed in England for training nurses. We would not wish to take any decisions that have adverse implications for this priority area, but it is a potential unintended consequence of the significant HE funding reductions proposed in the budget.
36. Reducing the remaining expensive subject premium for higher-cost performing arts provision will impact on the ability of Wales' conservatoire, the Royal Welsh College of Music and Drama, to supply talented individuals for the priority Creative Industries Sector in Wales. We have already had to make very difficult funding decisions in this area of provision as a consequence of the funding reductions to date. The Education Minister has recently commissioned an independent review of conservatoire and performing arts provision in Wales which is due to report by the end of April 2016. We would not want to make decisions about further changes to the funding for this provision in advance of the conclusion of the review but the extent of the proposed budget reduction from 1 April 2016 may mean that further funding changes have to be made.

Strategic allocations

37. A reduction in HEFCW funding would impact on HEFCW and Welsh HE providers' ability to support the Coleg Cymraeg Cenedlaethol and Welsh medium HE, with significant implications for the delivery of the Welsh Government's commitment to strengthen the place of the Welsh language in everyday life. This would impact on the vitality and sustainability of the Welsh language and could in the longer term impact on the capacity of the public sector to meet Welsh Language Standards. AY 2016/17 is the final year of the Coleg's funding package and it will be reliant on some level of support from HE providers, which

is currently under discussion in the context of the Diamond Review outcomes from AY 2017/18 at the earliest. This position would be made more difficult if Coleg funding were to be necessarily cut or removed in AY 2016/17.

Postgraduate funding proposals

38. The CSR confirmed the UK Government's proposals to make postgraduate study loans available to English domiciled students wherever they choose to study in the UK. The precise details of the scheme are yet to be finalised but are expected to be in place for the AY 2016/17 intake. Welsh Government officials are currently working with Universities Wales to try to have a similar scheme in place for Welsh domiciled students though initially it may be limited to postgraduate students at Welsh universities. There is strong competition for postgraduate students and again it will be important for Welsh universities to be able to offer similar incentives and funding arrangements to those available in England if they are to maintain their competitive position. HEFCW funding to support postgraduate taught provision has been reducing since 2011/12 (as shown in table 1) and currently funding is only provided for part-time postgraduate taught students in AY 2015/16. However the proposed budget reduction for FY 2016-17 may mean that no further funding for postgraduate study will be available from HEFCW after AY 2015/16.

Differential impact on sustainability of individual HE providers

39. The current funding model for the recurrent funding streams for QR, part-time and expensive subjects provides differential funding between the universities linked to the strategic priorities of each funding stream and each university's capacity to respond to those priorities.
40. Over 80% of the AY 2015/16 funding is allocated as recurrent funding, with Cardiff University receiving the largest proportion of this (45%) followed by Swansea University (15%), the University of South Wales (11%) and the Open University in Wales (8%). Glyndŵr and Cardiff Metropolitan Universities have the lowest proportions at 3% and 2% respectively.
41. There are significant differences in the capacity of Welsh universities to manage the consequences of a further funding reduction. Glyndŵr University is in the process of completing the implementation of a sustainable strategic plan. However, the scale of the University is such that it has very limited capacity to absorb and manage further funding reductions in the short term. There are other universities also forecasting deficit budgets or break even positions this year and currently implementing strategic changes to address them but further funding reductions would adversely affect those plans.
42. HEFCW will no longer have any unallocated funding from AY 2016/17 to provide short term financial support, such as cashflow support, or transitional restructuring funding and consequently will have very limited capacity to manage the potential consequences of a university falling into significant financial difficulties.
43. The majority of Welsh universities either have borrowings in place or are in the process of entering into new borrowings commitments over the next year or so and a significant further reduction in HEFCW funding could have an adverse

impact on their ability to secure borrowing and/or to service the debt. In addition, the price of commercial loans, in terms of the interest rate charged, reflects the extent of confidence that commercial lenders have in the underlying financial base of universities. Reductions therefore also threaten to make commercial borrowing more expensive in future. In the absence of capital funding from the Welsh Government, universities in Wales need to borrow funds to invest in their infrastructure to be able to respond to the expectations of students, maintain league table positions and remain competitive in a UK/global student recruitment market. There are instances where some universities arguably have more building space than they need. This does not mean, however, that they have no need for capital investment. Typically, such spaces are no longer fit for purpose, or arise from maintaining listed, iconic buildings. There is often little commercial potential to dispose of such buildings, so capital investment is required to address the challenges of under-invested estate.

44. It is essential that Welsh universities remain competitive within the UK sector as the sustainability of the current fees and funding arrangements depend on Welsh universities being able to attract students from the rest of the UK. The absence of general capital funding from HEFCW and lower financial surpluses already means that Welsh universities have a more limited ability to invest than their UK counterparts. Any investment must be funded through commercial borrowing, with implications for university finances if HE funding is reduced further.

Job losses as a consequence of funding reductions

45. There will be significant staffing implications for Welsh universities as a consequence of any further funding reductions. If the funding available for HEFCW to allocate in AY 2016/17 is reduced to £87m as proposed in the draft budget this would represent a total reduction of £64m compared to the AY 2015/16 allocation of £151m. As already indicated about £12m of this reduction had already been anticipated and would lead to the end of the Strategic Development Fund (restructuring funding) and some strategic initiatives which would not necessarily lead to job losses when the funding ends. However the remaining funding reduction of £52m is inevitably going to lead to job losses as universities, as financially responsible charitable organisations, will have to reduce their costs to manage within the lower funding allocations available to them. Based on average staff costs for Welsh HE providers a reduction of £52m could give rise to job losses of approximately 1,150 full time equivalent (FTE) jobs¹⁰ in Wales.
46. It should be noted that, as the above figures represent FTE jobs, they may represent an under-estimate of the total number of jobs that may be impacted as a result of a funding reduction.
47. In addition to the cost pressures on the sector resulting from such a cut in the HEFCW budget, the impact on sector staffing will be compounded by a range of significant financial pressures over the next few years resulting from unavoidable staff cost increases due to salary, national insurance and pension cost increases. Taken together, the above figures for potential impact on sector jobs may be an under-estimate.

¹⁰ Staff costs and FTE numbers from published 2013/14 financial statements for Welsh universities.

48. Such significant funding reductions and consequential job losses in the sector, and potentially at stakeholders working with HE providers, will damage the prospects for providing good jobs and economic growth in Wales at a time when the GVA per head in Wales is lower than in England and Scotland by approximately £7.5k and £5.5k per annum respectively ([ONS GVA report](#))
49. Universities have an economic impact on their communities and wider stakeholders that is much more significant than just their role as large and responsible employers. The recent report prepared by Viewforth Consulting ([Economic Impact Summary report](#)) concludes that higher education is a major economic actor and industry in itself and generates some £2.4bn of Welsh GVA (equivalent to 4.6% of the Welsh total) and creates almost 50,000 jobs in Wales (3.4% of the Welsh total). The report includes an extended analysis of the economic impact of Welsh universities across all the regions of Wales. This work found that every area of Wales benefits from the 'knock-on' effects of Welsh universities, regardless of whether they have a local university presence. Through the construction of a Wales-specific model, Viewforth Consulting have been able to demonstrate how economic impact flows further afield from areas that do not have a university through "ripple effects", with a quarter of the GVA (£597m) and jobs (11,783) created by Welsh universities being in parts of Wales that do not have a university on their doorstep. Consequently the proposed funding reductions for HE will not only have an impact on the universities and their local communities but more widely throughout Wales.
50. The impact assessment information that supports the draft budget does not provide details of the assessment made of the impact of the budget reduction on individual universities and their wider communities and stakeholders. Whilst we agree that it is important to focus on the impact of the HE budget decisions on students this cannot be fully considered without assessing the impact on the HE providers themselves.