



**Welsh Government draft budget proposals for 2017/18
A consultation response by Universities Wales**

1. About Universities Wales

- 1.1. Universities Wales represents the interests of universities in Wales and is a National Council of Universities UK. Universities Wales' Governing Council consists of the ViceChancellors of all the universities in Wales and the Director of the Open University in Wales.

2. Introduction

- 2.1. We offer the following provisional comments in response to the consultation of the National Assembly for Wales Committee's consultation on the Draft Budget 2017/18. The Draft Budget is currently scheduled to be published by the Welsh Government on 18 October 2016, and we note the Committee would be happy to receive further comments once it has been published.
- 2.2. In particular, we are currently awaiting the outcome of the Diamond Review of Higher Education, which we would expect to have a major bearing on the Welsh Government's future investment plans for higher education. As highlighted in our response to the Finance Committee's consultation on the Draft Budget 2016/17 in January 2016, there is a pressing need to address the funding issues for universities in Wales, and for the 2017/18 budget to address immediate funding issues before the Diamond Review is implemented.

3. Executive Summary

- 3.1. The following key points are emphasised in particular in our response below:
- Despite the welcome reprieve to the cuts initially proposed, higher education received a significant reduction in its budget for 2016/17. If there are further in-year cuts, either as a result of transfer of additional funding to meet tuition fee grant costs, or due to the budget level for 2017/18, this will have a serious impact.
 - It is imperative that a solution is identified in the light of the Diamond Review, and implemented as soon as possible in order to address longer term issues of sustainability and competitiveness.
 - The budget for 2017/18 must ensure that universities are not forced to make decisions that could have detrimental consequences for students and the economy in Wales before the Diamond Review recommendations can be fully implemented.

- Universities in Wales are a major economic driver in Wales, and a catalyst for social mobility. It is essential for the long-term prosperity of Wales that investment in higher education reflects this.

4. Consultation questions

- 4.1. Our comments follow the outline of specific questions asked by the Committee, but focus selectively on issues of particular relevance to higher education.

5. Question 1. What, in your opinion, has been the impact of the Welsh Government's 2016-17 budget?

- 5.1. The cuts to the higher education budget for 2016/17 have undoubtedly presented universities with a considerable challenge, and placed significant reliance on a more favourable budgetary settlement for 2017/18.

The cuts to the Budget for HE 2016/17

- 5.2. Despite the welcome reprieve to the cuts initially proposed, higher education received a significant reduction in its budget for 2016/17. As confirmed in the First Supplementary Budget, the HE budget for 2016/17 financial year was £118.9m, including the £21.1m ringfenced for student support (tuition fee grant) and £10m for research and part-time provision which were reinstated to the HE budget following debate on the Draft Budget in January 2016.¹ The effective budget for higher education for 2016/17 lies somewhere between £118.9m (-5%), which appears to be manageable in the short-term, and an estimated £97.8m if there are in-year cuts for 2016/17, which would amount to a reduction of 21% in a single year and have further significant consequences for higher education (discussed further below).
- 5.3. It is crucial to note that this was the sixth successive year of major cuts to the HE budget. The HE budget (before further transfers for tuition fee grant payments) has been cut by £333m or 74% since 2010/11 – a cut of more than three quarters in real terms (see Appendix A, 1.1). If there is an in-year cut, the cut could be around 80% in real terms since 2010/11. Universities in Wales have also had to manage a succession of major changes and further financial constraints. This includes the decision to reallocate full-time undergraduate student numbers across the sector in 2012 which imposed an average fee limit of £7.5k on institutions who received reallocated numbers from 2012/13. In addition to this, universities have cooperated with a policy of substantial reconfiguration.
- 5.4. Because of the shift from grant funding to full-time undergraduate fee income, the cuts to the HEFCW budget have differential impacts across universities, and institutions with certain activities are particularly vulnerable including, for instance, part-time provision, high cost subjects and research (discussed further below).²

¹ See [here](#) for the documents.

² For further comment on the impact of tuition fee grant, see Appendix B.

- 5.5. It should also be noted that **higher education has been disproportionately targeted for budgetary reductions since 2010/11**. If we look at the departmental expenditure limits for both resource and capital funding, the higher education budget (excluding student fees) has been cut by 74% whereas the rest of the Education and Skills Budget and the Welsh Government's total budget overall fell by only 7%.²

Impact for HEFCW allocations to universities in 2016/17

- 5.6. HEFCW has taken every reasonable measure possible to mitigate the direct impact for university funding allocations arising from the reduction in budget for 2016/17, on the basis of positive assumptions about the budget for 2017/18.
- 5.7. Even so, its overall allocation for 2016/17 academic year was a cut in funding of 12% for universities.⁴ As a result of the changes to the Final Budget, HEFCW preserved funding for research, expensive subjects and part-time provision approximately at their 2015/16 levels or a little below it. There were, nonetheless, significant casualties in 2016/17 in terms of the remaining funding for postgraduate provision, which was all but removed, and strategic funding.
- 5.8. Assuming that there are no in year-cuts, the final budgetary settlement for HE in 2016/17 appears to have been enough to prevent further severe difficulties for universities in managing the immediate grant reduction for 2016/17, pending the outcomes of the Diamond Review⁵.
- 5.9. It is important to note that **there is simply no space for further 'work-arounds' in the sector**. HEFCW has no further capacity to mitigate the impact of cuts to the HE budget. Universities in turn cannot indefinitely maintain the current range of academic activities and opportunities for students without a clear prospect of their future sustainability. Future funding (or assurance of it) is critical to the decisions that universities as financially responsible institutions will need to make over the coming months.

Vulnerable activities and subjects

- 5.10. The following points demonstrate the consequences of any further cuts and how universities' contribution cannot be viewed in isolation, with significant impact being felt across government departments through cuts to universities in Wales.
- 5.11. Further cuts will effectively mean that funding for expensive subjects in 2016/17 would be removed and then any remaining reductions applied to research and part-time allocations as set out in HEFCW's funding allocation circular.⁶
- 5.12. As recognised by the Children Young People and Education Committee these are areas which are particularly vulnerable as they rely on grant funding via HEFCW instead of, or in addition to, fee income. In its Report on the Draft Budget 2016/17, for instance, the Committee expressed its concern in particular that: "there are risks that the reduction in funding will disproportionately affect certain organisations who specialise in provision of part-time courses, research and expensive subjects such as medicine, dentistry and

² See Appendix A, 1.2. ⁴ See Appendix A, 1.4. ⁵ Independent review of higher education funding and student finance arrangements, Chaired by Professor Sir Ian Diamond, November 2014 – September 2016, (see [here](#)). ⁶

HEFCW Circular W16/16HE, see [here](#).

performing arts. Further, it is likely to have a disproportionate detrimental effect on female and older learners, who access the type of part-time provision likely to be reduced.”³

5.13. In broad terms, the impact of future cuts would be as follows:

- **Part-time** – A cut in funding to part-time institutional learning and teaching support presents the serious risk of closing off the opportunities that part-time study provides for a wide variety of students, including those that want to upskill or retrain, and businesses who want to grow through continuing professional development. Part-time provision also makes a significant contribution to the widening access agenda and to community development and economic regeneration in disadvantaged communities.

The reduction of funding to part-time provision has serious consequences on both the Government’s skills strategy and vision of social equality. Further cuts in part-time funding would constitute a net transfer of public support from adult learners to younger learners. Without public support, it is inevitable that part-time fees will have to rise. We have seen in England that the market will not sustain fees for part-time provision at the £9k level and this has caused a devastating decline in demand.

- **High-cost subjects** – The cost of teaching exceeds £9k in about half of subject areas, with science, technology and engineering subjects predominantly (but not exclusively) accounting for the higher cost subjects. Without public investment, there is a significant risk that provision in high cost subjects will move into decline.

This creates significant risk of Wales’ higher education system not being able to cater for the diverse needs of the future workforce and economy. A significant example of this would be the potential reduction of places available on courses such as medicine. It is this type of cross-departmental impact that requires serious consideration.

- **Quality Research (QR) Funding** - The consequences of reducing QR funding would have a profound impact as it would remove the foundations from a system that is proven to have a direct transformational effect on society and the economy. Research at Welsh universities is diverse and has a very real and significant impact on peoples’ lives – from improving the detection of abnormal blood clotting to safely disposing of high levels of nuclear waste; from exploring how sport can improve mutual respect and understanding to using computers to reduce preventable deaths in the health service; and from improving the quality of our bathing waters to reducing costs to our health service.

For example, a programme of research by our universities has reduced the number of people being taken to Emergency Departments (ED) by ambulance. In 2012-13 over 360,000 emergency calls were resolved through telephone advice, avoiding ambulance dispatch as a result of this research with **estimated cost savings from avoided ambulance journeys alone of £24 million**. Wales’ universities have the highest percentage of ‘world leading’ research in terms of impact such as this of any part of the UK, and it is this type of research that is at risk as a result of the proposed cuts. QR funding has a multiplier effect in that successive projects build on these foundations, attracting the brightest researchers, winning competitive research funding awards and developing innovations.

³ Letter to the Minister for Education and Skills, 19 January 2016.

Further cuts would remove these foundations, with magnified consequences for research as a whole across Wales, damaging the positive impact on Wales that is the result of many years' worth of work and investment that has led to such positive societal results.

Impact for long-term sustainability and competitiveness

- 5.14. A key concern for universities is their ability to remain competitive at current funding levels. This should be a major issue for Wales, since the economy is so dependent on the strength of its universities and their ability to compete successfully in a global knowledge economy.
- 5.15. Higher education in Wales requires additional investment to remain sustainable in the long term. Despite the introduction of the new fee and funding regime in 2012, HEFCW's assessment⁴ of the financial position of the sector stated, for instance, 'The operating surplus for 2013/14, when adjusted to take account of the **full economic cost adjustments** for the cost of capital and infrastructure, shows that the sector's position is an aggregate deficit of £67m compared with a deficit of £85m in 2012/13. This represents the degree to which the sector is not in a position to provide for a fully sustainable future.'
- 5.16. According to a recent report, one of the main reasons why Welsh universities may not fare well on public facing rankings is that they were significantly underfunded compared with those in England and Scotland over the previous decade⁵.
- 5.17. Based on our most recent analysis (see Appendix A, 1.6) the funding gap between Wales and England in 2016/17 is estimated to be £77m.

Economic impact

- 5.18. Welsh universities leverage a large economic impact for Wales and generated £4.6 billion of output in Wales in 2013/14, generated some £2.4bn of Welsh Gross Value Added (GVA) (equivalent to 4.6% of the Welsh total) and created almost 50,000 jobs in Wales (3.4% of the Welsh total). Welsh universities generated a total of £600 million of export earnings and the GVA generated by Welsh universities is more than by the Welsh Government priority sectors of the Creative Industries sectors and Food and Farming combined.
- 5.19. Universities in Wales are national assets – not simply resources to deliver programmes of study but **major generators of investment and income for the wider Welsh economy and society**. The significant economic impact that Welsh universities make to Wales' economy is shown below.
- 5.20. Universities provide an astonishing return on the investment made to them by Welsh Government. A recent independent report shows that a relatively small public funding profile has allowed Welsh universities to leverage a large economic impact for Wales, generating **£4.6 billion of output in Wales in 2013/14**. Higher education is a major economic actor 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).
- 5.21. Welsh universities generated a total of **£600 million of export earnings** through international revenue together with the estimated off-campus expenditure of international

⁴ HEFCW's [Analysis of the financial position of the HE sector 2013/14](#) with supplementary data from their forthcoming 2014/15 publication of this report.

⁵ Learned Society of Wales, 2011.

students and international visitors to Wales associated with the universities. This was **equivalent to 4.6% of all 2014 Welsh export earnings.**

5.22. **All parts of Wales shared in the impact of Welsh universities**, with impact spreading across local authority boundaries and to areas which do not host a university. Around 25% of both the GVA and jobs generated by the universities in Wales, (£597 million and 11,783 jobs) were generated in local authority areas that did not have a university presence. (See Appendix A, 1.9 for a breakdown of jobs generated by the expenditure of universities, their students and visitors across Wales, in each area).

5.23. **It should be noted that these figures exceed those of sectors that are prioritised by Welsh Government.** The £2.4billion of Welsh GVA generated by Welsh universities is more than by the Welsh Government priority sectors of the Creative Industries sectors and Food and Farming combined. Welsh universities directly provided 16,638 full time equivalent jobs across a wide range of occupations, which is **more than the Life Sciences sector.**

5.24. In many ways, universities in Wales can be considered as **high value inward investors**, but they are also far more. The earnings of universities are reinvested in Wales. If thought of as businesses, universities are major exporters and significant tourism assets: in both cases students from outside Wales create hundreds of millions of pounds for the Welsh economy⁶. It is also worth emphasising that the average salary in Welsh universities is £37,500 against an average salary of around £23,000 and GVA/head £17,500 in Wales. As Wales tries to raise GVA per head, high-value university activity is important.

6. Question 2. What expectations do you have of the 2017-18 draft budget proposals?

- 6.1. We would expect the Draft Budget for 2017/18 to reflect the Welsh Government's commitment to securing the long-term sustainability of higher education as a result of the Diamond Review.
- 6.2. The Welsh Government has given a clear commitment to taking forward the outcomes of the Diamond Review. The agreement reached in June 2016 in appointing Kirsty Williams AM to the government as Cabinet Secretary for Education specifically covered the outcomes of the Diamond Review. The exchange of letters between the First Minister and Cabinet Secretary states that it will be a common priority 'to consider the recommendations of the Diamond Review, with a view to early implementation, where appropriate, but there will be no negative effect on the higher education budget if there any changes'. The letter from the Cabinet Secretary also indicates that 'it was emphasised in discussions that these priorities have significant budget implications and will need to be reflected as the Government's forward budget plans take shape'.⁷
- 6.3. In addition, the Welsh Labour manifesto highlighted its commitment to a better package of student support, based on the recommendation of the Diamond Review. As part of this we would expect a budget to address postgraduate provision support in Wales as indicated to the National Assembly by the previous Minister for Education and Skills.¹²
- 6.4. These commitments are further confirmed most recently in the Welsh Government's 5 year programme for government, published on 21 September 2016.¹³

⁶ If students were converted to visitor numbers they would be worth around 13m visitor nights.

⁷ See [here](#), for the Press Statement and copies of the letters. ¹² See Record of Proceedings, 27 January 2016, (Questions to the Minister for Education and Skills),14:35. ¹³ Welsh Government, Taking Wales Forward 2016-2021, 21 September 2016 (see [here](#)).

- 6.5. We do not wish to pre-empt the outcomes of the Diamond Review at this stage. It is possible, however, that the Diamond Review concludes that while continuation of a certain level of grant funding as part of the overall HE funding and student finance package is desirable, there are a number of activities that could be considered to be best supported through grant from a sector level body.
- 6.6. We estimate that around £210m in grant funding would eventually be required to provide an equivalent level of annual funding for Wales and England from henceforward, and to prevent the historical funding gap from widening. HEFCE published its funding allocations for 2016/17 on 17 March 2016 (see here). The total recurrent grant for higher education in England remained the same as in 2015/16, with a shift from teaching (-£21m) to research (+£20m). In addition, HEFCE allocated £498m in capital grants for 2016/17. Based on the proportion used in the Barnett formula to determine the budget allocations for Wales, the equivalent allocations for Wales would be £182m in non-capital grants and £28m in capital funding, i.e. £210m overall.
- 6.7. HEFCW has also highlighted the need for additional funding for Welsh Medium/the Coleg Cymraeg Cenedlaethol on the basis that Wales should have proportionately more funding to account for the fact that there is no equivalent in England.
- 6.8. It is noted that there is significant capital funding in England. A strong case could also be made for additional capital funding to address the historic gaps and comparative underinvestment. This is discussed in more detail in Appendix C.
- 6.9. These estimates, however, do not take into account the further increase in full-time undergraduate fees to be introduced in England as a result of the UK White Paper and Higher Education and Research Bill and Teaching Excellence Framework (TEF). Our initial tentative estimates, for instance, suggest that to match the 2.8% fee increase in England for TEF Year 2⁸ would require an additional investment of approximately £9.5m for universities in Wales (around £3.6m in 2017/18, the first year of fee increases). Any additional inflationary increases in later years of TEF would require further funding.
- 6.10. It is also important to stress that this assumes that the existing budget is not used to cover additional major policy initiatives/costs. For instance, the Welsh Government set out plans for new ITT arrangements in March 2016.¹⁵ This included plans for a new four year undergraduate route and a new two year course for postgraduates. Under current proposals by the Department of Health, the NHS in England will gain up to 10,000 additional nursing, midwifery and allied health degree places and there will be increased support for students from 2017. These will have an impact on the student support budget in Wales. It will be important that the increase in student support costs, particularly the tuition fee grant payments, are not taken from the HE budget. Similarly, it is unclear what the arrangements for apprenticeships in Wales will be as yet, and the financial implications for universities.

7. Question 3. How financially prepared is your organisation for the 2017-18 financial year, and how robust is your ability to plan for future years?

- 7.1. The current budget levels and funding arrangements for universities pose significant challenges for Universities both in the short and long term. As is well attested, including in

⁸ See Department of Information, Teaching Excellence Framework factsheet, 2 September 2016 ([here](#)). ¹⁵ See: <http://gov.wales/newsroom/educationandskills/2016/minister-launches-new-vision-for-initial-teachereducation/?lang=en> ¹⁶ Wales Audit Office, Higher Education Finance, 21 November 2013 (as published in January 2014).

the report of the Wales Audit Office,¹⁶ universities are highly capable in managing their financial affairs, but there are major issues relating to the future sustainability and competitiveness for universities. These are detailed above in response to Question 1.

8. Question 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?

- 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)

8.1. We have previously expressed the view that it is difficult to see how the cuts to higher education funding are consistent with the aims of the Well-being of Future Generations (Wales) Act 2015 that requires consideration of the longer term in order to prevent storing up problems for the future. At the very heart of this legislation is the need to act in a sustainable way and to 'look to the long term as well as focusing on now' and to 'take action to try and stop problems getting worse - or even stop them happening in the first place.' Cuts to the HE budget represent a major cut in preventative spending. It is storing up longer-term problems that will take years to remedy. The potential for longer term damage that would be felt across departments is significant – health, environment, other education and so on.

8.2. Wales has few economic levers at its disposal, as the Welsh Government has previously highlighted in its Programme for Government, and investment in education remains one of the most important ways in which the Welsh Government can promote the economy. The importance of investment in higher education for the skills and economic agenda was recognised by the Enterprise and Business Committee in its Fourth Assembly Legacy Report which identified scrutiny of the Welsh Government's response to the Diamond Review as a priority for its future work programme.⁹

- Welsh Government policies to reduce poverty, mitigate welfare reform and prepare for an aging population

8.3. Higher education remains a major catalyst for social mobility. Investment in universities has significant consequences for students and access to higher education. As outlined above, further reductions – particularly for part-time provision - are likely to have a detrimental impact on disadvantaged groups.

- Sustainability of public services, innovation and service transformation

8.4. Our response highlights significant concerns about the implications of investment in innovation and universities as charitable institutions which serve the public interest.

- Local health board financial arrangements

8.5. See our comments above on the difficulty of maintaining provision for high cost subjects, including medicine.

- Preparation for the UK to leave the EU

⁹ p.6, see [here](#).

8.6. See our comments below in relation to Question 9. Universities are significantly affected by the decision to leave the EU.

- **Low carbon budgeting and preparing for the Future Generations Act**
- **Preparation for the impact of further devolution included with the Wales Bill**

8.7. In particular, the Welsh Government will need to respond to the further divergence of the Higher education arrangements arising from the Higher Education and Research Bill, which is currently progressing through the House of Commons. This is a major piece of legislation which will result in radical changes between England and Wales in terms of the constitution of the sector and its governing architecture.

8.8. Another issue which could have significant financial impact – both for universities and for the Welsh Government – is the legislation relating to Higher Education Corporations (HECs) and the their classification for purposes of national accounting. The Higher Education and Research Bill will make a number of changes to the legislation which in particular ensure that higher education corporations in England are not reclassified as central government by the Office for National Statistics following their current review of HE (last scheduled for June 2016 completion).

8.9. In particular, the changes to legislation for England will ensure that a higher education corporation cannot be dissolved against its will by the government. The power to dissolve institutions was clearly flagged as one of the key issues which led to the reclassification of Further Education institutions as central government in 2010, and the decision was one of the key driving forces behind the Welsh Government's changes to FE arrangements in its FE and HE (Governance and Information) Act 2014. There are no corresponding plans at this stage, however, to address this issue in Wales. In the absence of plans to bring forward its own higher education legislation in Wales, it is imperative that this is addressed through amendment to the UK Act in Parliament.

- **Impact of the Welsh Government's legislative programme and whether its implementation is sufficiently resourced**
- **Scrutiny of Welsh language, equalities and sustainability**

9. Question 6. What spending commitments and priorities would you like to see in the 2017-18 draft budget in order to ensure that progress is being made on preventative spending and, in particular, the area of health and social services?

9.1. The key commitment is to ensure that a solution to the long-term funding issues for higher education is implemented in the light of the Diamond Review. In particular, the issues relating to high cost subjects need to be addressed in this context.

10. Question 7. What spending commitments and priorities would you like to see in the 2017-18 draft budget in order to ensure that progress is being made on reducing poverty and preparing for an aging population?

10.1. The key commitment is to ensure that a solution to the long-term funding issues for higher education is implemented.

11. Question 8. Do you feel that allocations made by the Welsh Government are sufficiently evidence based?

11.1. We welcome the Welsh Government's commitment to the Diamond Review, which should provide a strong evidence base for future decisions on student finance and HE funding. The Interim Report published in December 2015 provided a comprehensive summary of views from stakeholders. We look forward to the Final Report imminently. The Welsh Government has previously described the Review as 'all-important',¹⁰ and we hope that its evidence is fully accepted in taking forward its recommendations.

11.2. As we work towards implement the outcomes of the Diamond Review in full, it will also be important to ensure that the funding of any transitional arrangements is properly assessed. A significant concern that we expressed in our response to the Draft Budget proposals for 2015/16 was that they were an inadequate assessment of the financial impact for universities and the implications of the changes. We were very pleased that the Welsh Government ultimately responded to the evidence and views submitted in response to the Draft Budget 2016/17 consultation and reflected this in their final allocations.

11.3. It will be important for the Welsh Government and HEFCW in particular to work together on their modelling and forecasts. We would expect the Welsh Government to also benefit from HEFCW's recent work including its report on the net impact of the fee and funding changes in the first three years of operation, and updated reports on the financial sustainability of the sector. We have also provided a guide to funding of HE in Wales that may be of assistance to stakeholders in the budgetary process.

12. Question 9. What changes to allocations and priorities do you feel need to be reflected in the draft budget 2017-18 and subsequent years as a result of the vote to leave the EU?

12.1. Universities in Wales currently benefit significantly from membership of the EU including the free movement of students and staff and structural funding, particularly for research and innovation. The decision to leave the EU will have a major impact on the income streams for universities and could make an already challenging funding position even more difficult to manage.

12.2. At this stage, there are two areas in particular that need to be addressed. The first is funding arrangements for EU students. In 2013/14, there were over 5,600 students from the EU studying in Wales. In particular, the most immediate concern is that EU students will be deterred from applying to Wales even before the UK leaves the UK, because they are uncertain about whether they will receive funding for future years of their study if they come to Wales. Future certainty about the continuation of arrangements for prospective students is clearly needed as soon as possible. Universities UK (UUK) has made representations on the urgency of this for 2017/18 entry. Wales may need to consider future provision in its budget in respect of its student support arrangements.

12.3. In addition, as the third largest recipient of structural funds in the last round, universities are very exposed to the withdrawal of this funding. It is the main source of capital or innovation funding in Wales at present. It will be essential that Welsh Government reserves are increased to a level that at least meets any shortfall of funding from loss of access to EU programmes.

¹⁰ See for instance, Huw Lewis, Minister for Education and Skills, Record of Proceedings, 2/12/2015, 14:29.

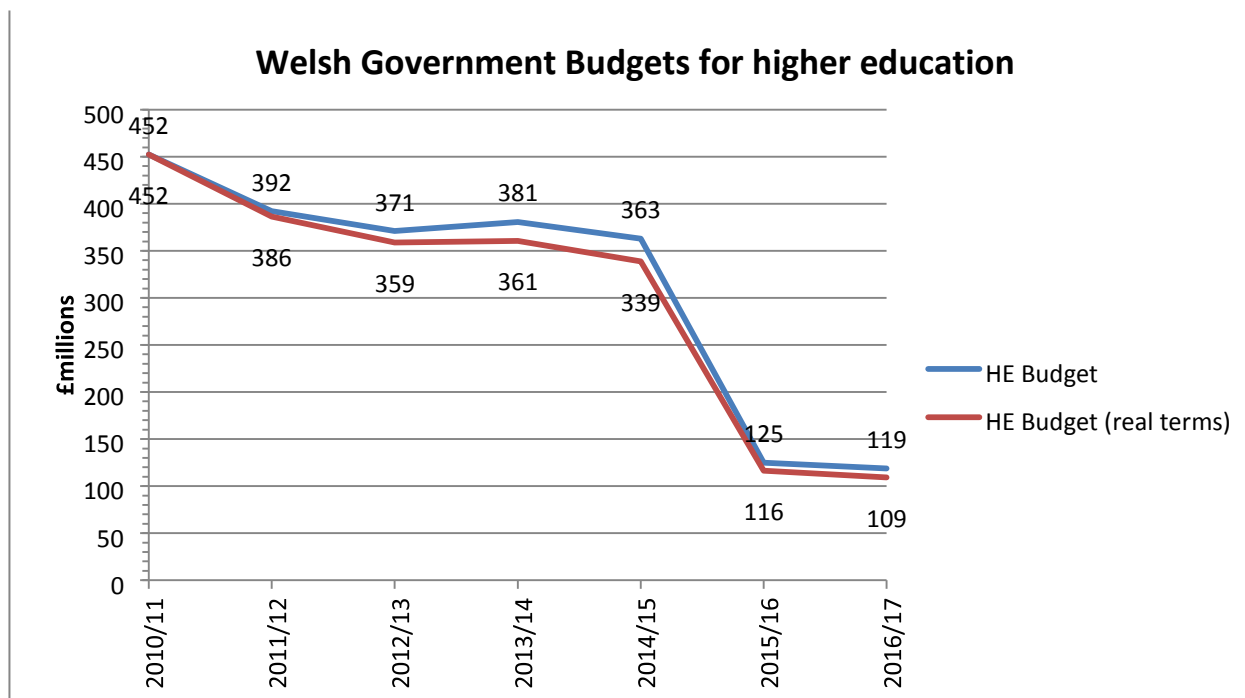
12.4. We very much welcome the Assembly's establishment of the new External Affairs and Additional Legislation Committee to safeguard Welsh interests in the UK's withdrawal from the EU and development of future relationships.

Universities Wales September 2016

Appendix A – HE Budget and HEFCW funding allocations 2016/17

What was the budget for HE for 2016/17?

1.1. The current budget position compared to previous years in both nominal and real terms is summarised in Figure 1:



Source: Universities Wales (from Welsh Government 2nd Supplementary Budgets for 2010/11 to 2015/6, and 1st Supplementary Budget for 2016/17). Real terms stated at 2010/11 market prices (using HM Treasury GDP deflators, March 2016).

1.2. For comparison, the following table summarises the change in the HE budget compared to the Welsh Government's total budget (excluding annually monitored expenditure i.e. expenditure it is not free to allocate). The HE budget has been cut by 74% since 2010/11 whereas the remaining Education and Skills Budget and the Welsh Government's total budget has fallen by 7% only:

Welsh Government Budgets				
Resource and Capital DEL (£millions)	Education & Skills MEG All MEGs			
Financial Year	HE	Other	Total	Total
2010/11	452	1,618	2,071	15,583
2011/12	392	1,471	1,863	15,037
2012/13	371	1,554	1,925	14,986

2013/14	381	1,790	2,170	15,766
2014/15	363	1,408	1,771	15,672
2015/16	125	1,673	1,798	14,843
2016/17	119	1,502	1,621	14,546
% change since 2010/11	-74%	-7%	-22%	-7%

Source: WG 2nd Supplementary Budgets, except for 2016/17 (1st Supplementary Budget).

What was the impact on funding for universities?

- 1.3. HEFCW funding is based on academic years, so the amount that it has available to allocate will depend on the budgets for the overlapping financial years as well as any previous balance that it may have carried forward.
- 1.4. The following summaries HEFCW's allocations for 2016/17, as indicated in HEFCW Circular W16/16HE:

HEFCW Funding Allocations (£ million)	2015/16	2016/17	+/-
Research	78.9	79.6	0.8
Teaching	48.4	42.4	-6.0
- Full-time undergraduate: expensive subjects	15.1	15.1	0.0
- Part-time undergraduate	26.7	27.2	0.5
- Postgraduate taught	6.6	0.1	-6.5
T&R except expensive subjects before		122.0	122.0
Strategy and initiatives	23.1	10.0	-13.1
Total allocations	150.6	132.3	-18.3

- 1.5. The following shows HEFCW's total grant allocations to universities, as identified in their annual allocation circulars, and support for students in Wales since 2010/11. The sum of the two has reduced by £113m over the past 6 years:

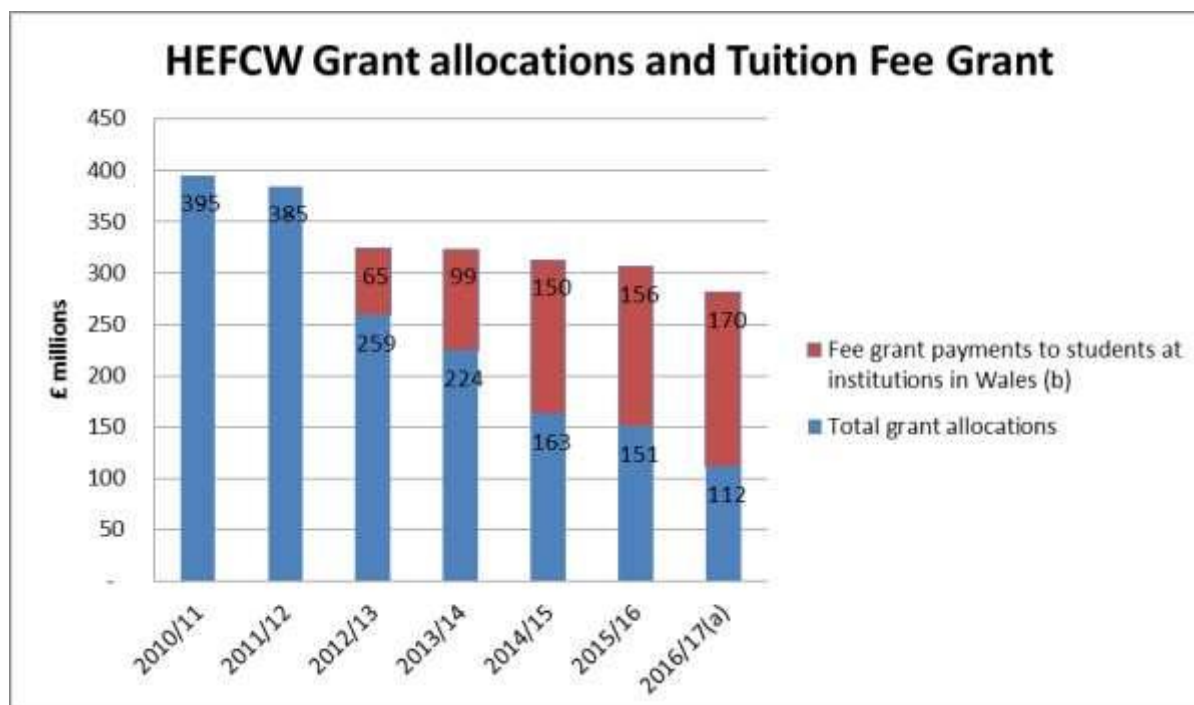


Figure 4. Source: Universities Wales based on the HEFCW Funding Circulars.

Note: (a) & (b) The figures for 2015/16 and 2016/17 are estimated. The forecast for overall TFG for 2015/16 is taken from the HEFCW Circular, but the distribution by country is estimated on the basis of the previous year's proportions. The forecast for overall TFG for 2016/17 is based on HEFCW W16/16HE.

- 1.6. A comparison with England's recent funding circular gives an indication of the size of the current funding gap based on HEFCW's and HEFCE's latest circulars. This is based on the assumption that there will be no further reduction in the HE budget for 2016/17:

Funding Allocations (£ million)	HEFCW		HEFCE (Scaled**)			Funding gap
	2015/16	2016/17	Recurrent	Capital	2016/17 Total	
Research	78.9	79.6	89.8	18.4	108.2	28.6
Teaching	48.4	42.4	77.4	7.2	84.6	42.1
- Full-time undergraduate: expensive subjects	15.1	15.1	38.2	0.0	38.2	23.2
- Part-time undergraduate	26.7	27.2				
- Postgraduate taught	6.6	0.1				
Strategy and initiatives	23.1	10.0	14.7	1.6	16.3	6.3
Total allocations	150.6	132.3	181.9	27.2	209.1	76.8

Sources: HEFCW W16/16HE; HEFCE 2016/09.

** Scaled using the Barnett formula ratio of 5.69% of England to provide an equivalent for Wales.

- 1.7. The following is our current estimate of the impact, based primarily on data published in grant allocation circulars, and our own estimates. These estimates are tentative (and shows the ring-fenced funding for tuition fee grant in 2016/17 as additional fee income rather than grant in this table) but suggest that the level of funding may have reached the point that further cuts to HE funding will make universities worse off in real terms than before the changes to the fee and funding regime in 2012:

Income related to fee/funding changes £millions in nominal terms	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
HEFCW Grant allocations ¹	395	385	259	224	163	151	111
Additional fee income from Welsh/EU students ²	0	0	65	99	150	156	170

Income related to fee/funding changes £millions in real terms (at 2010/11 prices)	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
HEFCW Grant allocations ¹	395	379	250	212	152	140	102
Additional fee income from Welsh/EU students ²	0	0	63	94	140	145	156
Additional fee income from RUK students ³	0	0	49	87	121	126	124
Total	395	379	362	393	413	411	382
Additional fee income from RUK students ³	0	0	51	92	130	135	135
Total	395	385	374	415	442	441	416

Sources: HEFCW Funding Allocation Circulars; Unis Wales estimates; HM Treasury GDP Deflator, March 2016

1.8. UCAS full-time undergraduate acceptances from Welsh-domiciled applicants by country of provider:

Provider country	2011	2012	2013	2014	2015	+/-
England	6,460	7,315	7,360	8,090	8,380	290
Northern Ireland	10	5	5	10	15	5
Scotland	95	115	105	115	120	5
Wales	11,765	11,875	12,190	11,955	11,990	35
All UK providers	18,330	19,310	19,660	20,170	20,505	335

Source: UCAS End of Cycle Report, 2015

1.9. Jobs generated by the expenditure of Universities, their students and visitors across Wales, by relative employment impact in each area:

Numbered by relative importance to employment in that area	Area of Wales	FTE Jobs generated by University activity	% of employment in the area ¹¹
1	Ceredigion	3027	8.4
2	Cardiff	15047	6.6
3	Swansea	6482	5.6
4	Gwynedd	2851	4.7
5	Rhondda Cynon Taf	3227	4.3
6	Newport	2433	3.4
7	Wrexham	1704	2.6
8	Merthyr Tydfil	534	2.3
9	Caerphilly	1349	2.3
10	Vale of Glamorgan	813	2.1
11	Carmarthenshire	1512	2.0
12	Neath Port Talbot	941	2.0
13	Torfaen	703	1.9
14	Bridgend	1248	1.9
15	Monmouthshire	839	1.9
16	Blaenau Gwent	339	1.7
17	Anglesey	396	1.6

¹¹ Derived from 2013 Data on Workforce employment by Local Authority (StatsWales)

18	Conwy	679	1.6
19	Flintshire	693	1.2
20	Denbighshire	488	1.1
21	Powys	707	1.1
22	Pembrokeshire	542	1.0
	ALL WALES	46552	3.4

1.10. Further information on the budget and on HE funding in general is available in Universities Wales's recently published guide.¹²

Appendix B - Note on full-time undergraduate tuition fee grant and university funding

- 2.1. Currently, the level of funding required to meet the Welsh Government's student tuition fee grant policy is directly linked to the funding available for higher education. Until 2015, tuition fee grant payments had to be met from HEFCW's budget, reducing the effective grant budget for higher education providers.
- 2.2. £232m was transferred from the HE budget for in June 2015 for tuition fee grant payments, leaving an HE budget of £129m for 2015/16.
- 2.3. **The consequence of drawing the funding for the tuition fee grant policy from the higher education budget is that it has become increasingly difficult for the Welsh Government to provide the public funding for its priorities including research, parttime and high-cost subjects as well as other priorities** such as the Coleg Cymraeg.
- 2.4. The following outlines why funding through tuition fee grant is not equivalent to direct funding to universities.
- 2.5. Firstly, **there are areas that are crucial to Wales' economy and society that require public investment because a market-led funding mechanism does not provide them with adequate support.** As shown in section 5, several subjects cost more than the student market is currently paying for them, and we have seen part-time provision decline in England when left to market-forces.
- 2.6. Secondly, fee income is subject to a specific agreement as part of fee plan requirements and must be used for sole purposes of promoting equality of opportunity and the promotion of higher education.
- 2.7. In addition to part-time provision, high-cost subjects and QR funding, **there is a limit to the amount that can be transferred from fee income to capital investment.** Capital investment is crucial for universities to be able to provide a student experience that is competitive with universities in the rest of the UK and indeed increasingly, Europe. For example, historic university buildings, that are often central to the cultural identity of many Welsh cities and towns, are also key to attracting students and yet are expensive to maintain. Universities currently use borrowings to support capital investment. They therefore also need to be able to use their income to cover the cost of any borrowing and also provide themselves with a cushion against any variation in income and cash-flow fluctuations (e.g. due to the profile of payments from the Student Loans Company).

¹² Universities Wales, New guide to university funding and student finance in Wales, 21 September 2016 (see the Universities Wales website: [here](#)).

- 2.8. Furthermore, as consumers, **students rightly deserve a fair deal for their tuition fees.** There is serious risk of creating a policy that is unfair to students if the Government expects universities to continue provision in areas that were previously in part publicly funded by increasing cross-funding or subsidising other areas.
- 2.9. Thirdly, tuition fee grants are only available to full-time undergraduates, not part-time. This means **there is no possibility of additional fee income to compensate universities for the loss of grant.** Added to this there are additional costs associated with offering parttime provision, which in the past have been recognised in the funding models by additional per capita funding.
- 2.10. In conclusion, university funding needs to secure strong, high quality, economically valuable universities in Wales that have the ability to deliver for both the people of Wales *and* for the students that study in them.

What does capital funding support?

- 3.1. Capital funds support the development and improvement of higher education infrastructure to create and sustain the conditions for a world leading HE system. Capital funding from Welsh Government has supported the sector to invest in high-quality buildings, equipment and information technology, which are essential to academic excellence in teaching and research.
- 3.2. Capital funding for estate covers both the provision of new buildings as well as the refurbishment of older buildings. Some universities have buildings which are at the end of their life and require significant capital investment in either refurbishment or wholesale replacement.

Why do universities need it?

- 3.3. Universities see capital investment as vital to being able to attract the best students and staff.
- 3.4. The shift of income from direct government funding to income from student tuition fees means universities are heavily reliant on student recruitment to sustain their income. This means investing in buildings with up-to-date teaching facilities, modern accommodation and the infrastructure to support world-leading research are more important than ever before. As public funding has decreased, overseas recruitment continues to be an important part of most universities' strategies and there is now greater competition between universities across the UK and internationally. In such an environment, it is crucial that universities can invest in their infrastructure to remain competitive.
- 3.5. University investment in estates has increased significantly. In 2004–05, providers spent £2.4 billion on acquiring or improving equipment and buildings, and by 2013–14 this had risen to £3.9 billion, an increase of 60.4%. The increasing need for capital expenditure comes at the same time as increasing uncertainty for many universities about future income and their ability to cover necessary expenditure.¹³

Why does this matter to Wales?

- 3.6. Wales' universities make a significant contribution to Wales through:

1. Generating billions for the economy
2. Providing a world-class experience for students
3. Producing impactful research
4. Regenerating communities

- 3.7. To do this they need to invest in capital in order to continue to:

- a) **Attract students and staff** as their spending generates an economic impact for Wales of £4.6bn¹⁴. A recent Frontier Economics report¹⁵¹⁶ shows the value of capital

¹³ [Patterns and Trends in UK Higher Education](#)

¹⁴ [The Economic Impact of Higher Education in Wales](#)

¹⁵ 'A review of HEFCE Capital expenditure – a report by Frontier Economics' HEFCE 2015 ²⁴ [Higher Education - Business and community Interaction \(HE-BCI\) Survey](#)

¹⁶ Research Excellence Framework (REF)

expenditure in attracting additional student numbers: The quality of a Higher Education Institution's teaching and research facilities is an extremely important component of its offer. It is also seen as being a driving factor for developing collaborations between HEIs and the private sector, which can lead to important innovations and generates further income: Income to Wales through knowledge exchange between universities and other organisations, including the private sector, rose to £201 million in 2013/14²⁴.

- b) **Offer a competitive student experience.** The introduction of tuition fees has changed the nature of the relationship between student and provider completely, with student expectations of their experience increasing significantly. Wales performs well overall in student satisfaction; however universities still report that a key objective in the development of capital programmes is because they need to improve the student experience by improving the environment.
- c) **Create the right conditions for world-class research.** Welsh universities have the highest percentage of 'world leading' research in terms of its impact of any part of the UK, with almost half of it considered to be having a transformational effect on society and the economy²⁵. This is through investment in the latest research facilities, which in turn attract the brightest and best researchers from across the world.
- d) **Perform a central role in projects that bring benefits to local communities.** All Welsh universities have buildings and facilities that are crucial to their local communities, such as arts, innovation and sports centres. Furthermore, many historic university buildings, that are often central to the cultural identity of many Welsh cities and towns and key to attracting people internationally, are very expensive to maintain.

How do universities currently fund capital investment?

- 3.8. Universities have to invest in order to attract students and staff. Until recently Welsh universities have had lower borrowing levels than the UK sector average. However, recent and forecast increases in borrowing to support significant estate development plans are likely to see the Welsh sector borrowings at least match the UK average, if not exceed it. Capital projects are noticeably more ambitious. Backlog maintenance may not be the biggest issue for all universities but for some in the sector, it remains a concern.
- 3.9. The vast majority of this expenditure has been covered by taking on more debt. Debt has never been so readily available at affordable costs, and interest rates remain low. Furthermore, universities are increasingly looking to more innovative means of raising money, such as bond issues, again which is generating relatively cheap money for universities to invest in their estate.
- 3.10. However, continuing at current rates of borrowing are not sustainable across all universities. A universities' ability to finance capital expenditure depends on their ability to generate a surplus – both for direct financing but also to enable borrowing. The Frontier Economics study suggests that a surplus of 7% per annum is required in order to sustain this.
- 3.11. HEFCW's assessment¹⁷ of the financial position of the sector has stated 'The operating surplus for 2013/14, when adjusted to take account of the full economic cost adjustments for the cost of capital and infrastructure, shows that the sector's position is an

¹⁷ HEFCW's [Analysis of the financial position of the HE sector 2013/14](#) with supplementary data from their forthcoming 2014/15 publication of this report.

aggregate deficit of £67m compared with a deficit of £85m in 2012/13. This represents the degree to which the sector is not in a position to provide for a fully sustainable future.'

- 3.12. Universities have been driving substantial operational efficiencies. This has been particularly driven in the Estates sector where we've seen property costs remain stable for the last five years despite substantial upward cost pressures.

What is the evidence?

- 3.13. HEFCE has produced (with Frontier Economics) a study reviewing capital expenditure. They found that capital is associated with significant positive changes in a number of outcomes at Higher Education institutions, including student numbers, numbers of researchers and contract and consultancy research income. There is clear evidence of the ongoing need, on the part of Government and the sector itself, for further capital investment in the sector, to continue to attract the best students, lecturers and researchers in the world.
- 3.14. UK universities lag behind some of their international competitors in terms of the amount they invest in capital. The funding gap between Wales and England was estimated to lie between £73m and £115m (before the reductions in the November Comprehensive Spending Review and Draft WG Budget for 2016/17). Whilst the funding environment continues to remain uncertain for the sector it is vital that investment levels are maintained to ensure that buildings and equipment remain fit for purpose and continue to meet the needs of students and staff.