

[National Assembly for Wales](#)[Finance Committee](#)

Fin(4)-HEF07

[Inquiry into Higher Education Funding](#)

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

Higher Education Funding in Wales**HEFCW Submission for Finance Committee****Introduction**

1. The Higher Education Funding Council for Wales (HEFCW) is a Welsh Government Sponsored Body which was established by the Further and Higher Education Act 1992. HEFCW is responsible for funding higher education (HE) in Wales and distributes funds for education, research and related activities at nine higher education institutions (HEIs), including the teaching activities of the Open University in Wales. We also fund HE courses at further education colleges. Our responsibilities for initial teacher training are covered under the Education (School Teachers' Qualifications) (Wales) Regulations 2004 and the Education Act 2005. In allocating funding from the Welsh Government to HE providers, we seek to ensure that the HE policy priorities of the Welsh Government, including those which are set out in our corporate strategy and associated measures, are met.

Research

2. **How successful are Welsh HEIs in securing research income from all sources.**

In 2011/12 (latest data available), Welsh universities secured research income totalling £170 million from external (i.e. non-HEFCW) sources. The breakdown by source of this income is as follows:

Source	Research Income of Welsh universities 2011/12
	£M
Research Councils	51.8
UK central government bodies	46.2
EU sources	33.5
UK-based charitable bodies	22.0
UK industry, commerce and public corporations	9.4
International (non-EU)	5.3
Other	1.7
Total	169.9

Source: Higher Education Statistics Agency FSR 2011/12

Question 3 below refers to an assumption of a nominal share of 5% for Wales in relation to Research Council income. The Welsh HE sector secured more than the nominal 5% share of the UK total for research income from UK central government and from EU sources, but less than the nominal 5% from UK charitable bodies and from UK industry/commerce/public corporations. This is not surprising, given the spread of subjects and the distribution of industry and public corporations of the size to commission research.

The sector's ability to lever in research income from external sources is underpinned by the research funding which HEFCW provides (Quality Research (QR) and Postgraduate Research (PGR)). This funding, which is currently around £76 million per annum, is allocated on the basis of the outcomes of a UK-wide assessment of the quality of research (the Research Assessment Exercise 2008 (RAE) and its successor the Research Excellence Framework (REF), the outcomes of which will be published in 2014). This is a UK-wide process of expert review which provides accountability for public investment in research and produces evidence of the benefit of this investment.

The outcomes of the RAE 2008, which informs the allocation of QR/PGR funding showed that Wales saw strong performances over a range of subjects, with world-class achievement in a number of areas including civil engineering, computer science and informatics, psychiatry and neuroscience, psychology and Celtic studies. 14% of all research activity submitted by Welsh institutions was judged to be 'world-leading', with a further 35% assessed as 'internationally excellent'.

The Council's funding for research (QR and PGR) continues to be by far the largest single source of research income for Welsh HEIs, amounting to 31% of the total research income of the Welsh HE sector in 2011/12. This represented 4% of the total recurrent research funding for the UK as a whole, a percentage share which was unchanged from 2010/11 (and is below the nominal share for Wales assumed in question 3).

3. How can Welsh HEIs improve their performance to meet the Welsh Government's ambition that they receive at least 5 per cent of UK Research Council funding?

The sector's share of Research Council (RC) income was 3.4% of the UK total in 2011/12, which was unchanged from 2010/11.

There is a question whether the Welsh Government's ambition that Welsh HEIs receive at least 5 per cent of UK Research Council funding is reasonable. The 'Golden Triangle' of universities (Oxford, Cambridge and London) gain particularly from Research Council competitive funding and all are located in England, thus disproportionately affecting the performance elsewhere. While institutions in Wales do in fact gain greater than the nominal 5% share in Arts and Humanities and Social Sciences, the Research Councils in those areas award lower amounts of funding in comparison with those covering science and technology: investigation of the spread of subjects in Wales has shown that researchers are more likely to be in areas which gain less RC funding (ie those outside of the Science, Technology, Engineering and Mathematics areas).

The new Sêr Cymru initiative, highlighted in the Welsh Government's *Science for Wales* strategy, to promote STEM research will support the objective of boosting

capacity in STEM subjects. Sêr Cymru is designed to strengthen performance substantially and has been successful in attracting top quality researchers to Wales. However, it is likely to take some time to deliver objectives and, whilst extremely welcome and valuable, is not on a scale which will fully resolve the issue.

HEFCW's Corporate Strategy target in this area, which tracks growth in Research Council income generally against the UK, excluding the 'golden triangle' of Oxford, Cambridge and London, has been met in each year of the corporate strategy thus far. In absolute terms, RC income in Wales decreased by £1.9m (3.6%) between 2010/11 and 2011/12. For the UK as a whole, RC income in HEIs decreased by 3.2% between the two years, or by 4% when the 'golden triangle' institutions are excluded.

Our funding has promoted research collaborations and shared services developments which have enhanced research performance and encouraged efficiency savings. Further information can be found on our website, hefcw.ac.uk. Examples of HEFCW funded research collaborations include, amongst others, the Aberystwyth-Bangor Research and Enterprise Partnership (<http://www.aberbangorpartnership.ac.uk>); the Wales Institute of Cognitive Neuroscience (www.wicn.ac.uk); the Low Carbon Research Institute (www.lcri.org.uk); the Wales Institute of Social and Economic Research, Data and Methods (www.wiserd.ac.uk); and the Climate Change Consortium for Wales (<http://www.c3wales.org>).

4. In which areas do Welsh HEIs successfully collaborate to bid for research funding, and how could improvements be made in other areas where greater collaboration is required to increase research income.

The Aberystwyth-Bangor Research and Enterprise Partnership had delivered successful joint research bids to the value of £26.373 million by February 2013. The majority of this joint research funding was in the broad areas of Agricultural, Biological and Environmental Sciences.

In 2013, Cardiff University and three of the South West of England's leading research intensive universities – Bristol, Exeter and Bath – established the Great Western Four partnership (GW4). Linking Cardiff in this way to three other leading research universities will create a critical mass of research excellence, and the combined research expertise of the four institutions will give Cardiff – and Wales – a very important new competitive edge in securing research income.

Three new subject-based National Research Networks (NRNs) are being established in Wales by Welsh Government through its Sêr Cymru programme (co-funded by HEFCW), with their objectives to specifically include obtaining collaborative income. These Networks are the: NRN in Advanced Engineering and Materials; NRN in Low Carbon Energy and Environment; and NRN in Life Sciences and Health.

Additionally, HEFCW is co-funding the Welsh Crucible, a programme of professional and leadership development for highly-promising researchers which has a particular focus on promoting a collaborative and interdisciplinary approach to research.

Tuition fee income and support

5. What has been the financial effect of the new tuition fee policy, introduced in the 2012/13 academic year, which allows HEIs to charge students up to £9k per annum for HE courses? What future financial effect is this policy likely to have?

The change to the new fees and funding regime has seen a move from HEFCW providing teaching funding support for home/EU students studying at Welsh HEIs, to HEFCW providing fee grant support for all Welsh domiciled full-time undergraduate and PGCE students, wherever in the UK they study, and EU domiciled full-time undergraduate and PGCE students studying in Wales. This means that the greater part of the HEFCW budget is expended on tuition fee grants for full-time undergraduate and PGCE students (paid to institutions across the UK via the Student Loans Company), with less remaining for investment in the other policy priorities (eg research, Welsh medium and widening access as well as part-time and continuing students).

Prior to confirmation of recruitment for 2013/14, our estimate of fee grant payments to Welsh HEIs was £117m. We estimated, based on Welsh Government (WG) data, in addition, fee grant payments to higher education providers in the rest of the UK of approximately £50m. Latest figures indicate that there has been an increase of 3% in the number of Welsh domiciled applicants accepted to English institutions in comparison with 2012/13 and a drop of 1% in the number of Welsh domiciled applicants accepted by Welsh institutions, an overall increase of 90 Welsh domiciled applicants to UK HEIs.

In addition, Welsh institutions gain fee income from applicants from the rest of the UK (outside of Wales). Latest figures indicate 10,320 accepted applicants who are English-domiciled, a rise of 1,140 or 12% in comparison with 2012/13. Our estimate of the income to Welsh HEIs related to enrolments from the rest of the UK, above the £3,575, for 2013/14 was £87m.

From 2014/15 our modelling indicates that the fee grant support payable to Welsh institutions will be approximately £157m, with approximately £68m being paid in fee grants to higher education providers in the rest of the UK, outside Wales, based on WG data.¹ This funding follows Welsh-domiciled students out of Wales. We have no mechanism for controlling the level of this funding commitment, more importantly, there are no levers available to ensure that this money delivers Welsh Government priorities.

Further information about the detail of our funding allocations for 2013/14, as well as the process of calculating the budget and fee grant assumptions related to our grant-in-aid from the Welsh Government of £382.284m in 2013-14, can be found in [HEFCW's Funding Allocations 2013/14](#)

In comparison with the implementation of the new regime in England, the new tuition fee policy in Wales provides support to students, through the provision of a fee grant, which would otherwise (in an English context, where students take out loans) be supporting HEIs. While the new policy provides an increased *income* source for all UK HE providers, the *funding* levels as allocated by the Funding Councils, available for HEIs in Wales, are not as high as those in England.

¹ These early estimates are given to illustrate what the broad impact will be when all three cohorts are in the new scheme.

6. Does the new tuition fee policy create a greater or lesser level of financial uncertainty for HEIs? Please explain your answer.

Under the new tuition fee policy, the funding follows the full-time undergraduate/PGCE student. This means that a greater proportion of the institution's income is dependent on student choice, which creates a market for those students as 'customers' of HE. There is potential for institutions to achieve increased income with this higher level of fees, for those able to attract students. However, in general, this type of income is a less certain stream of funding in comparison with the previous regime comprising a more balanced offer of lower fee levels and HEFCW funding, which makes planning more difficult. Although overall recruitment informed institutional allocations, HEFCW funding was able to provide a stable level of funding (against various factors designed to support HEIs in achieving Welsh Government priorities) which provided for continuity of funding from year to year and some smoothing of variations.

7. What has been, and is likely to be in the future, the financial implications of the Welsh Government's tuition fee grant?

Our modelling indicates that the current regime will continue to require more than 60% of the HEFCW budget to be spent on tuition fee grant for full-time undergraduate and PGCE students. Within that, nearly 20% of our total budget will be spent in support of Welsh domiciled students studying elsewhere in the UK (see figures above).

The requirement to meet the costs of the tuition fee grant is now the first call on the HEFCW budget. This has meant that we have had to significantly reduce or completely withdraw a number of funding lines which previously provided targeted support for specific areas of Welsh Government policy. The funding lines which have been withdrawn include: HEFCW's Innovation and Engagement Fund (formerly £8m per annum) which helped universities exploit and commercialise their research for the wider benefit of the economy and society; support for universities in their widening access activities (around £5.7m) and widening access premia (£9.9m) in 2011/12; and support for the additional costs of Welsh medium provision (Welsh medium premium around £1.5m in 2011/12).

8. Does the current funding regime provide effective financial support to students from the lowest income households and is this the most cost effective way of financially supporting this cohort of students?

HEFCW fee grant is payable on behalf of all full-time undergraduate/PGCE EU and Welsh domiciled students attending Welsh HEIs and all Welsh domiciled students attending HEIs in the rest of the UK. There is no differentiation by household income.

Full-time undergraduate/PGCE Welsh domiciled students from lowest income households (using domicile in Communities First areas of deprivation as a proxy) are less likely to leave Wales for higher education study. While 34% of Welsh domiciled new entrants go to study outside Wales; only 19% of Welsh domiciled new entrants from Communities First areas go to study outside Wales. [source: HESA 2011/12]

9. What are the financial implications for Wales of subsidising Welsh students who study in HEIs outside of Wales?

Our modelling suggests that some 20% of our total budget will be spent in support of Welsh domiciled students who study elsewhere in the UK, with the bulk of that investment being made in England. This modelling is subject to some variation not least because, as noted above, we have no means of controlling the number of Welsh domiciled students who choose to study elsewhere in the UK, or the associated tuition fee grant costs. The provision of the fee grant makes Welsh domiciled applicants particularly attractive to English institutions which are expected to meet widening participation targets and are permitted unconstrained recruitment of students gaining A level grades of ABB or above. This support for Welsh citizens is not targeted according to financial need and results in investment in the higher education infrastructure elsewhere in the UK at the cost of similar investment in the Welsh system. It also means that economic multiplier effects of investment in higher education in Wales are reduced.

10. What are the financial implications of more expensive subjects (eg medicine and engineering) being funded under the new tuition fee regime given that some courses may cost in excess of the maximum £9k per annum for HEIs to deliver?

At present, we have been able to pay a premium in respect of priority subjects and those more expensive subjects which, historically, have attracted more than £9k per student in fees and funding. Recognising the ongoing difficulties for institutions which provide subjects previously funded above £9k per student in fees and funding, we are endeavouring to maintain an expensive subject premium (covering clinical medicine and dentistry and conservatoire provision), however our capacity to maintain this support is under pressure.

11. How important is the income stream to Welsh HEIs from tuition fees received from students domiciled outside Wales including the rest of the UK, European students and overseas students?

Forecasts for 2012/13 indicate that estimated fees from those domiciled in the rest of the UK and non-EU Europe, as well as overseas students will comprise approximately 23% of the total income of Welsh HEIs and 52% of the total fee income in 2012/13 (based on forecast information provided by Welsh HEIs in 31 July 2013). The proportion of HEIs' income from fees will increase in subsequent years and the proportion of Funding Council grant income will reduce. Consequently, the fee income stream from student domiciled outside Wales is also likely to increase if current recruitment patterns are maintained.

Other income and financial issues

12. What opportunities do Welsh HEIs have to increase income from recruiting additional students?

Whilst we have established a maximum amount of tuition fee grant we will pay each institution in Wales, there is no cap on the number of FTUG and PGCE students that institutions can recruit. Additional income, above that received through fee grant, therefore, would arise from the recruitment of non-Welsh (and EU) domiciled FT UG and PGCE students, including overseas students. They could also gain additional fee income from increased recruitment of PT and PGT students.

13. What progress is being made in relation to the Welsh Government's Programme for Government indicator that 'at least 75% of Welsh HEIs will have an annual income in excess of the UK median', and how can this be improved in the future.

This indicator is similar to that in the HEFCW Corporate Strategy 2010-13, reiterated in 2013-16 namely: 'At least 75% of the Welsh higher education institutions to have an annual income in excess of the UK Median, with no institution to be in the lower quartile by 2015/16. In reporting on the 2010-13 period, we noted that 'This area of our corporate strategy relates to the key priority of the Minister to see stronger and more sustainable universities, of a size which enables them to compete nationally and internationally. Our target has focussed on universities positioning themselves in the best place to compete through merger, to ensure that their income exceeds the UK median. Although this target is unlikely to be met, we have seen three mergers over the period [2010-13] (University of Wales, Lampeter and Trinity University College Carmarthen; Swansea Metropolitan University and University of Wales Trinity Saint David and University of Wales, Newport and the University of Glamorgan).

Since April 2013, a further merger has taken place and one is scheduled in South West Wales, between the University of Wales Trinity Saint David and two Further Education Institutions, as part of the dual-sector university developments. Following the current mergers, and assuming that Aberystwyth and Bangor universities secure their income at a level above the UK median, we calculate that five out of eight universities will have a turnover greater than the UK median (62.5%). We take the view that, without further reconfiguration, it may not be possible to achieve the Corporate Strategy target as it currently stands.