

## **Written Response by the Welsh Government to the report of the National Assembly for Wales Finance Committee on Higher Education Funding**

**May 2014**

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### **1. Background**

1. At its meeting on 6 March 2013, the Committee agreed to conduct an inquiry to consider the funding of Higher Education Institutions (“HEIs”) in Wales, the financial impact of the Welsh Government’s tuition fee grant policy on HEIs and students in Wales, and whether the Welsh Government is delivering value for money in this area.

### **Terms of reference**

2. As the new part-time higher education funding policy does not come into effect until later in 2014 the Committee decided to initially focus this inquiry on full time HE funding. As a result of the consultation responses received, the scope of the inquiry was widened to include part time HE funding.

3. The Committee’s terms of reference covered three broad income streams of HEI funding plus the role of finance in choices made by students:

- Research – How effective are HEIs in securing research income including Welsh Government funding of research via Higher Education Funding Council for Wales (“HEFCW”).
- Tuition fee income and support – What has been the financial effect of the new tuition fee policy introduced in 2012 which allows HEIs to charge students up to £9,000 per annum for HE courses and what are the financial implications of the Welsh Government’s tuition fee grant?
- Other income opportunities or threats – How important is the income stream to Welsh HEIs from tuition fees received from students domiciled outside Wales including overseas students and what are the financial consequences, now or in the future, of other changes in the HE marketplace including the entry of private providers?
- Student choices – What financial considerations do students take into account when deciding whether to go into HE and what impact the WG’s tuition fee grants have on an individual’s choice?

## **Review of Higher Education Funding and Student Finance Arrangements in Wales**

4. On Tuesday 19 November 2013 the Minister for Education and Skills announced that he was setting up a Review of Higher Education Funding and Student Finance Arrangements in Wales, to be chaired by Professor Sir Ian Diamond. The review is to be structured in two parts.

5. Professor Sir Ian Diamond will produce a factual summary of the evidence that the review team collect in autumn 2015. The final report, including final recommendations, will be issued by September 2016.

The priorities for the review will include:

- widening access – ensuring that any future system has widening access at its core objective, is progressive and equitable;
- supporting the skill needs of Wales;
- strengthening part-time and postgraduate provision in Wales; and
- long-term financial sustainability.

## **Statistical Information in relation to Higher Education**

6. On 24 April 2014 the Welsh Government published a Statistical Bulletin entitled Universities and Colleges Admissions Service (UCAS) Statistics 2013 Entry.<sup>2</sup> This bulletin analyses UCAS data relating to applicants accepted to full-time degree and HND courses in autumn 2013 at higher education institutes in the UK.

### **Applicants to Welsh institutions**

7. In the 2013 academic year, 25,511 applicants were accepted by Welsh institutions. This represents a 5.7% increase compared with 2012 and is in contrast to the 8.1% decrease in applications between 2011 and 2012.

8. Just under half (47.8 per cent) of all applicants accepted by Welsh HEIs are Welsh domiciled students. This proportion is 1.4 percentage points lower than in 2012.

## **2. Detailed Responses to the report's recommendations are set out below:**

### **Recommendation 1**

The Committee recommends that the Welsh Government works with HEFCW and the higher education institutions to closely monitor identify and assess the implications of any changes to trends in the numbers of international students; of policy changes in England, and any changes in the numbers of new applications for Welsh universities. (Page 18)

Welsh Government response - accepted

- HEFCW and the Welsh Government will continue to work together to monitor the implications of international students, for example, one of the HEFCW Corporate Strategy 2013-16 targets tracks recruitment of international students in Wales against UK trends. In addition HEFCW works with UCAS and HESA to obtain data which enables close monitoring of Welsh institutional recruitment performance. HEFCW officers at all levels work with counterparts in England and the rest of the UK across the full range of Higher Education policy areas, this includes reciprocal arrangements for Chief Executive Officer attendance at full Council meetings with both England and Scotland.
- Welsh Government officials meet with HEFCW quarterly to discuss and monitor their performance. HEFCW are also a member of the Welsh Governments Student Support Forecasting User Group which monitors and analyses data relating to student numbers.
- The Welsh Government is aware of the benefits accruing from attracting international students to Wales, both in terms of cultural diversity but also in terms of economic benefit for Wales. International students in Wales generate a value-added contribution to the economy of over £140 million per annum.
- The Welsh Government is a member of the UK Higher Education International Unit's Advisory Board, along with colleagues from HEFCW and HEW. The Advisory Board meets quarterly and considers the impact of UK Government immigration policies on student recruitment. In recent years there has been a decline in the numbers of Indian students studying in the UK, including Wales, due to the perceived difficulties in obtaining Tier 4 visa, but also due to the relative strength of the pound to the rupee. This has been compensated by an increase in the number of Chinese students studying in the UK, including Wales. Officials regularly monitor trends in international students and work closely with the sector and colleagues in England to ensure that Wales continues to be an attractive destination of choice for international students.

**Financial Implications** – There are no financial implications arising from this recommendation

## Recommendation 2

The Committee recommends the Welsh Government should continue to carefully monitor funding for the higher education sector until the Review publishes its first interim report and report regularly to the National Assembly for Wales, (as part of the Draft Budget narrative), on changes that may impact on higher education funding for example changes to cross-border flows of students; number of overseas students; policy changes in England etc. (Page 18)

Welsh Government response - partially accepted

- The Welsh Government will continue to monitor the funding available to the higher education sector up until the next election. The latest HEFCW funding circular confirms that the sector continues to receive above inflation increases in income at a time of austerity. The overall funding available to the sector (HEFCW funding and fee income) increased by 11.1% in 2014/15 and by 13.8% in 2013/14).
- In addition we will continue to closely monitor the impact of policy decisions taken in England (including changes to recruitment patterns by English Universities and its impact on funding in Wales).
- Student finance policy is underpinned by a sophisticated financial model which takes into account the current financial position set aside for higher education in Wales as well as other sources of institutional income such as tuition fees. Forecasts are reviewed regularly as new or more robust data becomes available. Updated forecasts are produced by the Knowledge and Analytical Services Department at regular points during the financial year to ensure that the latest information regarding student behaviour, demographic trends, take-up rates, socio economic factors and other relevant data are taken into account.

Decisions to amend the assumptions contained in the model are based on advice from a Student Support Forecasting User Group of officials which includes representatives from Higher Education Division, Knowledge and Analytical Services, Corporate Services, Corporate Services Division and HEFCW.

In addition to discussions at the Student Support Forecasting User Group, the high-level modelling assumptions are discussed at the

Higher Education Funding and Student Finance Project Board. These Boards are made up of Welsh Government officials and key delivery partners including the Student Loans Company, HEFCW, Higher Education Wales and the Welsh Local Government Association.

The revised assumptions, data and macro economic factors are entered into the student finance model which produces future forecasts.

- Government funding is scrutinised annually via the draft budget and I do not intend to introduce a further mechanism for reporting changes to the higher education budget.

**Financial Implications** – There are no financial implications arising from this recommendation

### Recommendation 3

The Committee recommends that the Welsh Government should look closely at the impact of policy decisions made in England, including after the UK election in 2015, and particularly the extent to which English universities are attracting Welsh domiciled students who: -

- attract additional funding under “widening access” policies;
- achieve high A’ level grades for example ABB; or
- unable to find a relevant course in a Welsh HE institution. (Page 19)

Welsh Government response - accepted

- The Welsh Government will continue to closely monitor the impact of policy decisions taken in England (including changes to recruitment patterns by English Universities and its impact on funding in Wales).
- Consideration of cross border flows is within the remit for the Diamond Review. The panel undertaking the Review, when making its recommendations in 2016, will take into account the potential impact and implications of policy decisions made in England during the lifetime of the review. In this regard the panel will need to consider the implications of any UK policy changes post 2015 election.
- In the meantime, Knowledge and Analytical Services in the Welsh Government is able to access information on cross border flows of Welsh domiciled students to English Universities.

**Financial Implications** – There are no financial implications arising from this recommendation

#### **Recommendation 4**

The Committee recommends the Welsh Government review how they can support Welsh institutions which are close to the border to complete effectively with English institutions, for example reviewing local competition for specific courses; funding for capital projects etc. (Page 19)

Welsh Government response - not accepted

- Welsh institutions compete in the UK-wide and global markets for both UK and international students and not exclusively with those close to the Wales and England border.
- HEFCW will continue to work with Institutions to encourage a collaborative approach with other HEIs to provide courses on a regional and national basis.
- HEFCW will monitor the competitive performance of the Welsh HE sector against institutions in England and in other parts of the UK.
- Welsh Government officials have met with HE sector representatives to discuss the possibility of working together to understand the strategic demand for funding capital projects in Wales, with a view to accessing funds from institutions such as the European Investment Bank.

**Financial Implications** – There are no financial implications arising from this recommendation.

#### **Recommendation 5**

The Committee recommends the Welsh Government commission more detailed modelling on overall student debt and the student loan book to estimate the long term implications of student debt. (Page 23)

Welsh Government response - accepted

Modelling on student debt is an area which has not been fully explored from a Welsh Government perspective and further work is required (in conjunction with the SLC and the NUS) to gain a fuller understanding of the long term implications of student debt, especially as more data becomes available on the new fees regime.

**Financial Implications** – There are no financial implications arising from this recommendation. Any additional costs will be drawn from within existing Higher Education Division programme budgets

### **Recommendation 6**

The Committee recommends the Welsh Government explore the options for being involved in further developments of the Department for Business and Skills HERO model which is used to model student loan repayments and whether adjustments can be made to take account of Welsh Government student finance policies. (Page 23)

Welsh Government response - accepted

- The Welsh Government will continue to discuss its' involvement in further developments from the Department for Business and Skills model for calculating the Government Subsidy for providing student loans. This will include how officials manage the process of developing the model to include unique Welsh policies.
- I will write to the Minister for Universities and Science in England and I will respond to the Committee on this recommendation once I have received a response.

**Financial Implications** – There are no financial implications arising from this recommendation. Any additional costs will be drawn from within existing Higher Education Division programme budgets

### **Recommendation 7**

The Committee recommends the Welsh Government investigate if:

- there is evidence that increasing numbers of graduates either do not need to repay their student loans because they do not meet the minimum earnings threshold requirements to do so or are failing to repay the loans for other reasons;
- drop-out rates of students before completing their courses is increasing' (Page 23)

Welsh Government response - accepted

- The Welsh Government will work with SLC to agree a terms of reference to investigate loan repayments against earning thresholds and reasons for non-payment. The Welsh Government will be required to commission SLC, possibly in conjunction with DWP, HMRC and NUS to match data on graduates once they are in employment.
- HEFCW is currently required to monitor retention of both full time and part time students as one of the Corporate Strategy measures.

**Financial Implications** – There are no financial implications arising from this recommendation. Any additional costs will be drawn from within existing Higher Education Division programme budgets

### **Recommendation 8**

The Committee recommends the Welsh Government should increase awareness of the tuition fee grant at an earlier stage (at the latest year 9) in students' education. As well as ensuring consistency in how awareness is raised. (Page 26)

Welsh Government response - accepted

- The Welsh Government has asked the NUS (Wales) to undertake work to improve my understanding of why some students are not claiming the tuition fee grant. In addition, I have asked them to widen the scope of the work to include all Welsh Government grants (means tested and non-means tested).
- The Knowledge Management and Analytical Services Department of the Welsh Government will develop a system that will enable some further detailed analysis of areas of low take-up rates.
- Whilst the Student Loans Company promote the tuition fee grant in all relevant materials and work with schools to promote the policy, they currently do not focus on this age group particularly; they tend to work with students and their parents in the last 2 years of school.

We will formally request that the Student Loans Company undertake a review of its communication strategy (including the results of stakeholder feedback and customer satisfaction) during the first year of the modernised Student Finance Wales service to ensure that messages are being communicated effectively and to discuss how we could best reach this audience in a cost effective manner.

- Discussions need to take place with local Government about how and when they can raise awareness of student finance to students in secondary education.

**Financial Implications** – There are no financial implications arising from this recommendation. Any additional costs will be drawn from within existing Higher Education Division programme budgets.

### **Recommendation 9**

The Committee recommends the Welsh Government monitor the number of students who live at home while studying to see if there is an increasing trend. (Page 26)

Welsh Government response - accepted

- The Welsh Government will request that the Student Loans Company undertake work to consider possible trends in this area, possibly supported by HESA data and the NUS.

**Financial Implications** – There are no financial implications arising from this recommendation. Any additional costs will be drawn from within existing Higher Education Division programme budgets

### **Recommendation 10**

The Committee recommends the Welsh Government commission research into whether living costs are more of a concern than tuition fee costs to students. (Page 26)

Welsh Government response - partially accepted

- Research covering certain elements on funding priorities for students has already been completed by NUS (student views on the costs of study and debt [Pound in your Pocket, Wales 2014]), but there are gaps which the Diamond Review could commission, depending on the Review's direction of travel and the costs of the research. The Diamond Review Panel has a finite budget and, therefore, needs to be selective about what research it commissions. As an independent body, it needs to be allowed to decide for itself (rather than being instructed) what research is required.
- Further discussion needs to take place regarding the work due to be undertaken both internally within WG and externally about the types of research being planned in the future to identify whether such research could be commissioned.

**Financial Implications** – There are no financial implications arising from this recommendation. Any additional costs will be drawn from within existing Higher Education Division programme budgets

### **Recommendation 11**

The Committee recommends that the Welsh Government, with HEFCW, should monitor how much money is spent on widening access initiatives and monitor whether this money represents value for money and is achieving its aim of supporting students from lower income households. (Page 29)

Welsh Government response - accepted

- Welsh Government officials have remitted HEFCW in AY 2014-15 to monitor and report on widening access activities including the proportion of student fee funds devoted to widening access and participation activity. Widening access covers many agendas related to students underrepresented in higher education, not just those from lower income households. The difficulty of establishing the causality between specific widening access interventions and outcomes, and consequently the return on investment, is widely acknowledged. I recognise that spending on widening access is greater than 'formal' allocations of funding for this area, such as HEFCW's allocations to the Reaching Wider Partnerships.
- I have already made clear the need for improvements in the way in which HEFCW measure the impact of widening access initiatives and HE generally on those from low participation neighbourhoods. For example, the fee plans which institutions must submit to HEFCW already represents an important source of evidence of how they are deploying tuition fee income to meet widening access priorities.

Officials will be exploring with HEFCW ways in which the fee plan guidance, which is issued annually, could be made more explicit on what is considered by widening access and what I expect to see in terms of institutions' related activities and spending. However, HEFCW continues to monitor the outcomes across a range of widening access measures, including those assessed at UK level.

- Widening access is also included in the terms of reference for the Review of HE Finance and Student Funding. I would anticipate, therefore, that the Review Panel's final report may also include recommendations relating to this area.

**Financial Implications** – There are no financial implications arising from this recommendation. Any additional costs will be drawn from within existing Higher Education Division programme budgets

### **Recommendation 12**

The Committee recommends that the Welsh Government, with HEFCW, should monitor the number of part-time higher education students in Wales to ascertain any changes in trends.

Alongside this, the Committee recommends that a clear interim strategic policy direction is set for part-time higher education up to at least the academic year 2016/17. (Page 32)

Welsh Government response - partially accepted

- Welsh Government officials will continue to monitor the number of part-time students in higher education to ascertain any changes in trends resulting from the introduction of part-time fee loans.
- I have made it clear to the Funding Council that part-time HE remains a Ministerial priority for the Welsh Government. However, I will need to consider the Councils' position statement on part time provision, the report by the WAO on HE Finances and the findings of the Diamond Review before I am able to evaluate next steps.

**Financial Implications** – There are no financial implications arising from this recommendation.

### **Recommendation 13**

The Committee recommends that the Welsh Government, with HEFCW, implement a holistic, strategic funding package for part-time study and for the Open University, at least for academic years 2014/15 and 2015/16, as an interim strategy until Professor Sir Ian Diamond's review completes its work. (Page 32)

Welsh Government response - partially accepted

- The Welsh Government has introduced part-time fee loans from 2014/15 to support and promote part time study in Wales and additional funding has been provided to support the Open University in 2013/14 and 2014/15 to ameliorate the impact of the transfer of HEFCW funding to support full-time undergraduate student fee grants.
- Given that the Diamond Review is due to be completed by 2016, introducing a strategic funding package which is holistic and affordable requires a longer timescale and could not feasibly be implemented for either of the suggested academic years.

**Financial Implications** – There are no financial implications arising from this recommendation.

#### **Recommendation 14**

The Committee recommends that the Welsh Government should work with HEFCW to ensure that every higher education institution in Wales receives a small, minimum level of research funding, for example £500,000, if they are not entitled to any further funding under the sustainable research excellence formula. (Page 35)

Welsh Government response - rejected

Research is a highly competitive process, and HEFCW has been following moves in other parts of the UK and internationally for activity to be focused on larger, well-resourced research teams (as demonstrated by the outcomes of the Research Assessment Exercise).

This ensures that the available funding is provided to units which have excellent research and are sufficiently large to be sustainable in the longer term. At a time of limited and contracting resources, a relatively small number of universities do most of the outstanding research – in Wales 95 per cent of all university research takes place in just five institutions – this has as a consequence led to the concentration of QR and other research funds.

This also maintained performance and allows Welsh institutions to compete effectively with universities elsewhere in the UK for Research Council and other research grants.

There seems little point in dissipating scarce QR funding across a large number of small, mediocre research teams. The Research Councils themselves are focusing increasingly on funding excellence and multidisciplinary research that addresses major scientific and societal challenges. This is leading to the growth of larger, better-resourced research teams. If Welsh universities are to remain competitive for Research Council and other external grants then they must similarly develop greater scale and range as well as improving their quality. Dissipating QR through such an “all must have prizes” approach will prevent us from achieving these goals.

**Financial Implications** – There are no financial implications arising from this recommendation.

#### **Recommendation 15**

The Committee recommends that a review is undertaken of post-graduate provision, including funding. (Page 35)

Welsh Government response - partially accepted

- Postgraduate provision forms part of the terms of reference of the Diamond Review, but consideration would have to be given to the remit which may have to be widened to include both provision and funding.

- HEFCW is currently drafting a paper exploring those subjects which are not available in Wales at both undergraduate and postgraduate level.

**Financial Implications** – There are no financial implications arising from this recommendation.

### **Recommendation 16**

The Committee recommends that the Welsh Government and HEFCW should monitor the impact of the current fees/loans funding regime on the number of students studying expensive subjects in Wales and monitor the quality of provision of expensive subjects. (Page 37)

Welsh Government response - accepted

- The reforms that the Welsh Government introduced in 2012-13 have put the HE sector in a much stronger financial position to support expensive subjects. Latest forecasts suggest that the new funding regime will contribute an additional £200m during the lifetime of this Government when compared to the previous funding formula. Given the increase in funding available to the sector, there should be an expectation on institutions to accept that what used to be funded by HEFCW via specific funding streams might now be regarded as their responsibility because the outcomes are important to Wales.
- It is pleasing to note that enrolments in STEM subject courses in HE continue to increase suggesting that provision in Wales is proving attractive to potential students.
- HEFCW will continue to monitor trends in subjects of a broader importance to Wales, including STEM provision. Quality assurance arrangements in UK higher education are undertaken by the Quality Assurance Agency (QAA) who focus on the awarding responsibilities of the university and not at individual subject level.

**Financial Implications** – There are no financial implications arising from this recommendation.

### **Recommendation 17**

The Committee recommends that the Welsh Government should evaluate the progress and value for money of Coleg Cymraeg Cenedlaethol. (Page 38)

Welsh Government response - accepted

HEFCW was remitted in 2013-14 to 'undertake an evaluation of the outcome of the Coleg's activities, including a review of the funding provided to the Coleg and to supply my officials with the details of the review by September

2013 and a final report by September 2014.’ That review is under way, conducted by consultants Oldbell3, and will by the end of September 2014.

**Financial Implications** – There are no financial implications arising from this recommendation.

### **Recommendation 18**

The Committee recommends that the Welsh Government investigate whether the overall number of students studying in the medium of Welsh is increasing or decreasing, and if necessary, investigate;

- the reasons why the take-up of studying courses delivered in Welsh is not increasing;

- the reasons students who have attended Welsh medium education do not all continue to study HE courses in Welsh;

and agree an action plan with stakeholders to address any issues. (Page 39)

Welsh Government response - accepted

- HEFCW will continue to monitor the issues raised in this recommendation. One of the HEFCW Corporate Strategy 2013-16 targets aims to increase in the number of HE students undertaking at least 5 credits and at least 40 credits through the medium of Welsh.
- Performance against corporate strategy targets is reported on annually in the HEFCW annual report.
- The evaluation of the Coleg, referred to above, will investigate these matters in more detail and we will await the recommendations of the evaluation before taking further action. Some of the answers to these questions lie with education arrangements prior to entry to higher education.

**Financial Implications** – There are no financial implications arising from this recommendation.

**Huw Lewis AM, Minister for Education and Skills**