

# A short guide to university funding and student finance in Wales

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# Universities Wales

This document has been produced by Universities Wales, the body that represents our members - the eight universities and the Open University in Wales.



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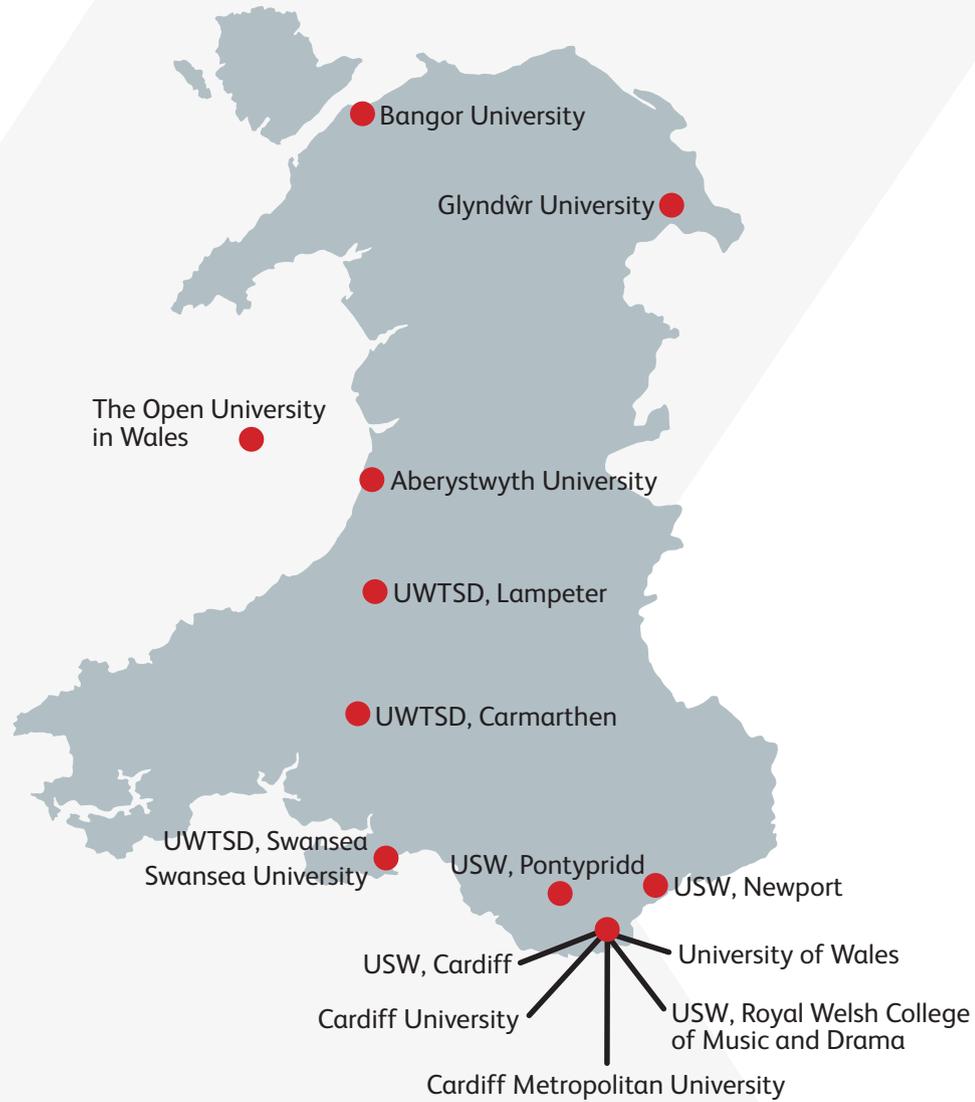
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# Overview of universities in Wales

There are eight universities and the Open University in Wales



# Introduction

Universities in Wales are all charities and do not make a profit. All the income they receive and any surplus that they make is spent on:

- › teaching and training students to meet the skills needs of Wales and equip them with the attributes they need to actively participate in a global economy
- › conducting world-class research that transforms lives
- › driving innovation that supports local and national economic growth
- › investment in the estate and infrastructure to provide fit for purpose teaching and research facilities

This guide explains how the income that universities receive to support these crucial activities has changed over recent years and the current situation as a consequence of these changes.

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# 01

## Welsh Government funding for higher education



University teaching and research are crucial to Wales' economy and society. Whilst the majority of universities' income to support this activity comes from private sources - including tuition fees - the funding universities receive from Welsh Government is essential to funding areas that it is not possible to fund through a market-led

mechanism, and that universities would otherwise not be able to provide without public subsidy.

There have been significant changes to the funding Welsh universities receive from Welsh Government over recent years. This guide explains how these changes came about and the current position of university funding.

### University funding and student support arrangements differ across the UK.

In 2012 Wales followed England in increasing the maximum fee limit for full-time undergraduate study to £9,000 per year (from £3,375 in 2011/12).

However, unlike England, Welsh Government introduced tuition fee **grants** for all full-time undergraduate and PGCE Welsh domiciled students and EU students in Wales to cover this increase (approx. £5,000) so that these students would pay no more in real terms than they had done prior to the fee increase.

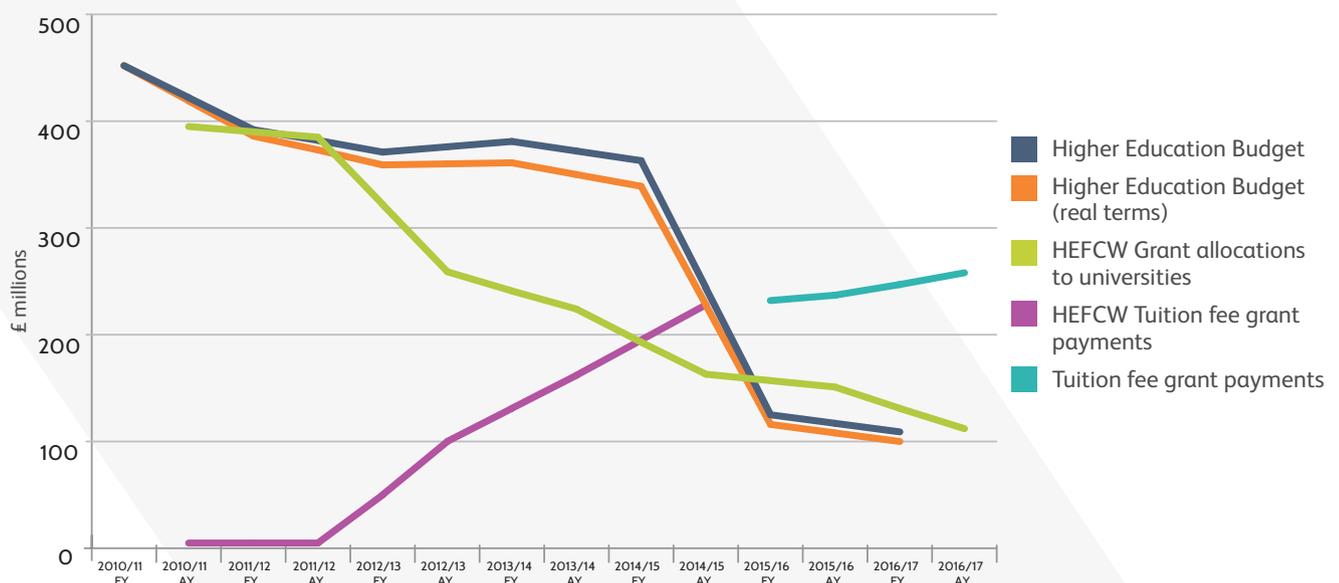
Note: fees for part-time and postgraduate study and for international students are not subject to fee limits, and there was no major change in support arrangements for these.

Therefore, since 2012/13, the Welsh Government's Higher Education budget (administered by the Higher Education Funding Council for Wales - HEFCW) is funding two different recipients:

1. Public funding for students
2. Public funding for universities

Figure 1 shows that since 2012/13 a significant part of HEFCW's already decreasing budget has been used to fund tuition fee grants for students (purple) whilst direct funding to universities has declined (green).

## Welsh Government budget for Higher Education



**Figure 1**

Source: Welsh Government Budgets. Real term figures by Universities Wales.

From 1 April 2015 the Welsh Government's payments for student tuition fee grants was moved to the Welsh Government's post-16 support budget. However, whilst HEFCW no longer administers this funding, HEFCW is still effectively liable for increases in fee grant costs. £21.1m has been ring-fenced by the Welsh Government for forecasted additional tuition fee grant payments for FY 2016/17 (i.e. the year ending 31 March 2017), should tuition fee grant requirements exceed the current budget.

# Public funding for universities and students – the current situation

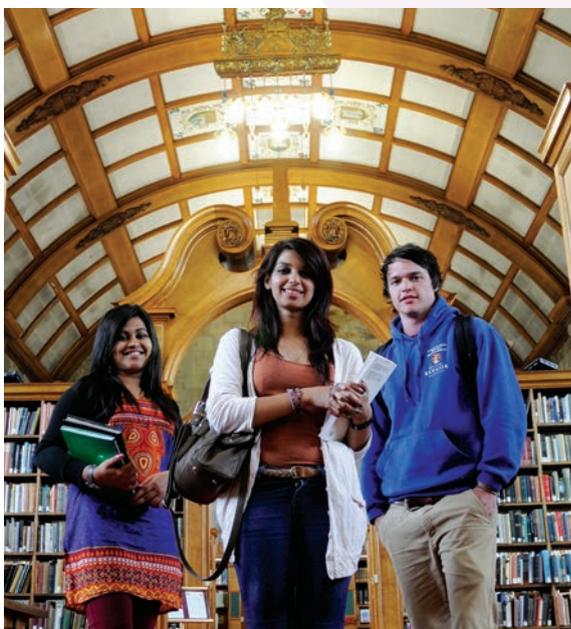
## 1 Public funding for students

**How much: £258m tuition fee grant payments for 2016/17** (estimated based on HEFCW remit letter including potential additional £21.1m fee grant cost).

### What is it spent on?

The majority of public funding for students provides **non means-tested** tuition fee grants (TFG) of up to £5,190 per year for every student from Wales, and for EU students studying in Wales. Tuition fee grants are only available for full-time provision at undergraduate and PGCE level and they are paid by the Student Loans Company on behalf of Welsh students (and EU students in Wales) to their higher education provider, **wherever they choose to study in the UK**.

The Welsh Government also provide a range of other student finance support measures including means-tested maintenance grants of up to £5,161 per year, which are met from a separate Welsh Government budget.



## 2 Public funding for universities

**How much: £112m HEFCW grant funding for universities in 2016/17** (after deduction of the potential additional £21.1m fee grant cost).

### What is it spent on?

Public funding enables universities to positively work to Welsh Government's priorities, as set out in the HEFCW remit letter. This grant funding to universities supports areas that are crucial to Wales' economy and society, but require public investment because they cannot be funded by tuition fee income and a market-led funding mechanism does not provide them with adequate support. These areas are core research funding and teaching funding for part-time and Welsh medium provision and additional funding for expensive subjects (see opposite page).

### Research

Public funding for research in universities is provided across the UK through a dual-funding system:

**Core funding for research from Welsh Government** distributed via HEFCW, known as **QR (Quality-related Research) funding**. QR funding provides the foundations on which numerous projects can be built by attracting the brightest researchers, securing UK Government, European and private funding and developing innovations. The Research Excellence Framework (REF) 2014 results are used as the basis for the allocation of QR funding from HEFCW to universities.



QR funding in Wales has been held at a constant level over the last few years. However, this has only been possible because HEFCW has protected QR funding at the cost of withdrawing or significantly reducing other budget lines such as funding for widening access and postgraduate teaching. There have not been comparable reductions to other budget lines in England where QR has been protected in real terms.

UK Research Councils also provide **competitive funding** for universities. Funding for the UK Research Councils is not devolved, and increased Research Council expenditure is not reflected in the Welsh Government's budget under the Barnett formula. Wales competes directly with other UK institutions for a share of the grants - QR funding from HEFCW is therefore crucial for universities to be able to compete.

To be sustainable in the long term, universities need to meet the full costs of their research, including costs for academic staff, training of postgraduate research students, fieldwork, laboratory and studio work and to replace their infrastructure. However universities in Wales did not cover their costs for research activities in 2013–14, with a significant deficit of £124m, which is 39.6 % of university income.

## Teaching

### Part-time

There are additional costs associated with offering part-time provision. However, it has been demonstrated in England that the market will not sustain fees for part-time provision at the £9k level where fee increases have caused a devastating decline in demand (even though they have rarely been set at a level pro-rata to £9k). Therefore public subsidy of part-time provides opportunities for higher education to 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 makes a significant contribution to higher level skills development

in the workforce, to the widening access agenda, and to community development and economic regeneration in disadvantaged communities. In line with Welsh Government's priorities, HEFCW has sought to maintain support for this provision as far as possible which to date has allowed lower fees for this provision in Wales and consequently a lower decline in recruitment compared to England.

### Expensive subjects

Fee income is insufficient, even at the £9k level, to sustain all teaching on its own. Data from the UK wide costing exercise (known as TRAC) indicates that the cost of nearly half of all subjects is greater than £9k.

Furthermore, the Welsh Government fee plan guidance indicates that around 30 % of the additional tuition fee income (the approx. £5k TFG from Welsh Government) is used to support equality of opportunity and promote higher education. As the ring-fenced additional fee income (approx. £1.5k) cannot be used to meet the subject-related teaching costs of full-time undergraduate provision, the effective maximum fee income for teaching is £7.5k not £9k. The majority of subjects cost more than £7.5k to deliver.

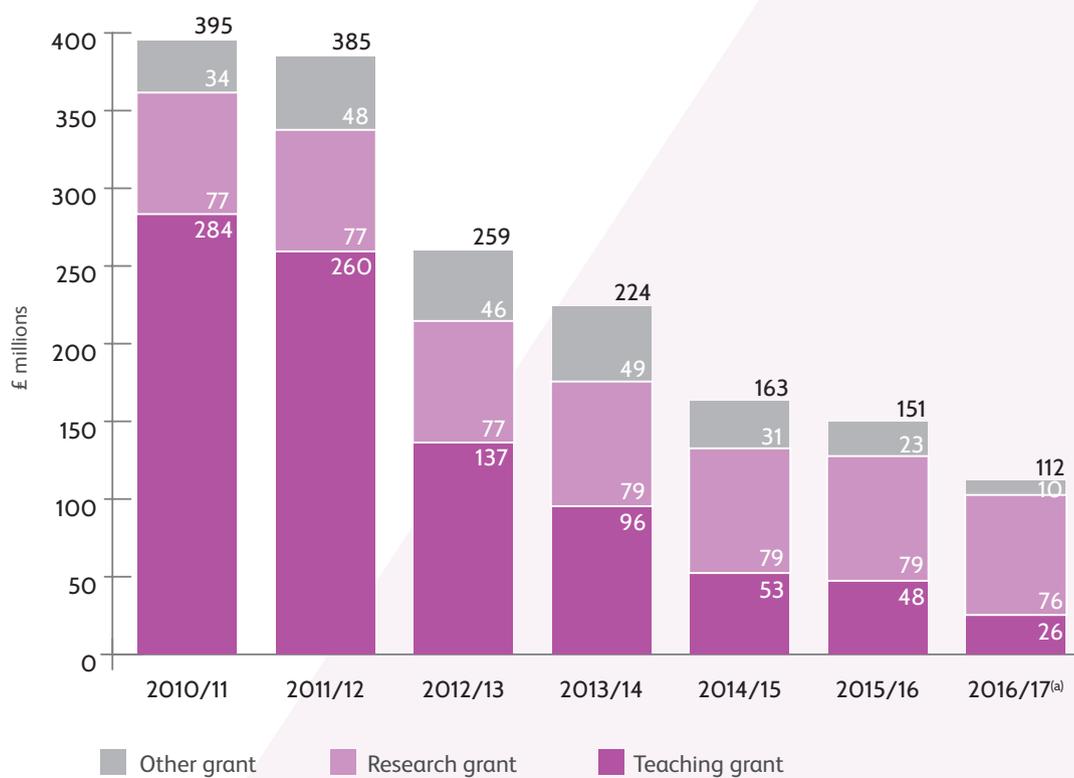


It costs over £15k per year to train a doctor. Welsh universities receive £7.5k\* per year from the student's tuition fees. Welsh Government funding to universities through HEFCW is used to cover this funding gap to ensure the pipeline of future doctors in Wales.

\* Effective fee income - see above.

HEFCW's funding is typically allocated by formula taking into account various factors, including recruitment in academic subjects, mode and level, and the amount of high quality research undertaken in the institution.

## HEFCW Grant allocations by activity



**Figure 2**

Source: Universities Wales based on the HEFCW Funding Circulars. Notes: (a) This assumes that £21.1m is used for tuition fee grant payments, and grant allocations reduced as indicated in HEFCW W16/16HE.



# 04

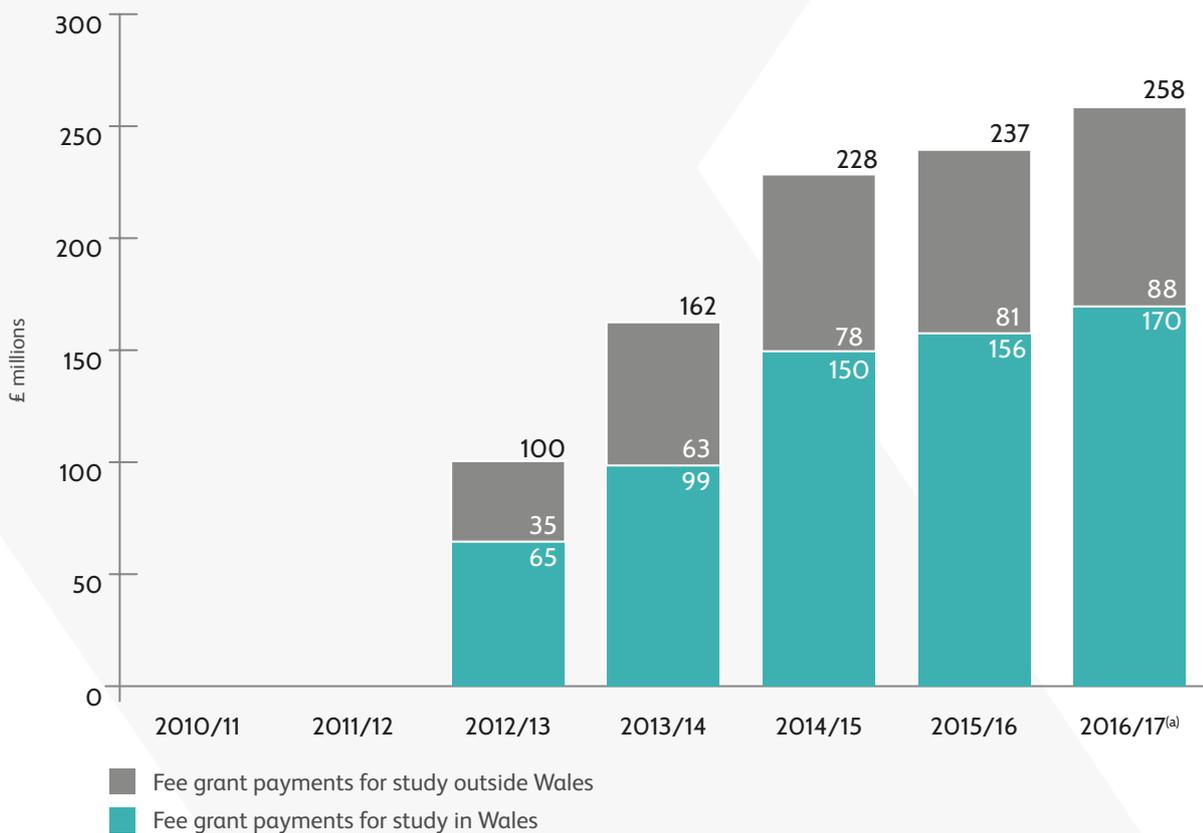
## The consequences of changes in higher education funding

### Decrease in total income

As shown in Figure 1, public funding for universities has decreased significantly. Around 10% of the sector's income currently comes from public funding. Around 50% is from tuition fees from both domestic and international students, with the remainder from research grants and contracts, and income from businesses and charities.

Although universities receive the majority of their income from tuition fees, currently only two thirds of the Welsh Government's public funding for tuition fees is received by students attending Welsh universities, as Welsh students are entitled to the tuition fee grant wherever they choose to study.

### Tuition fee grant payments to Welsh/EU students



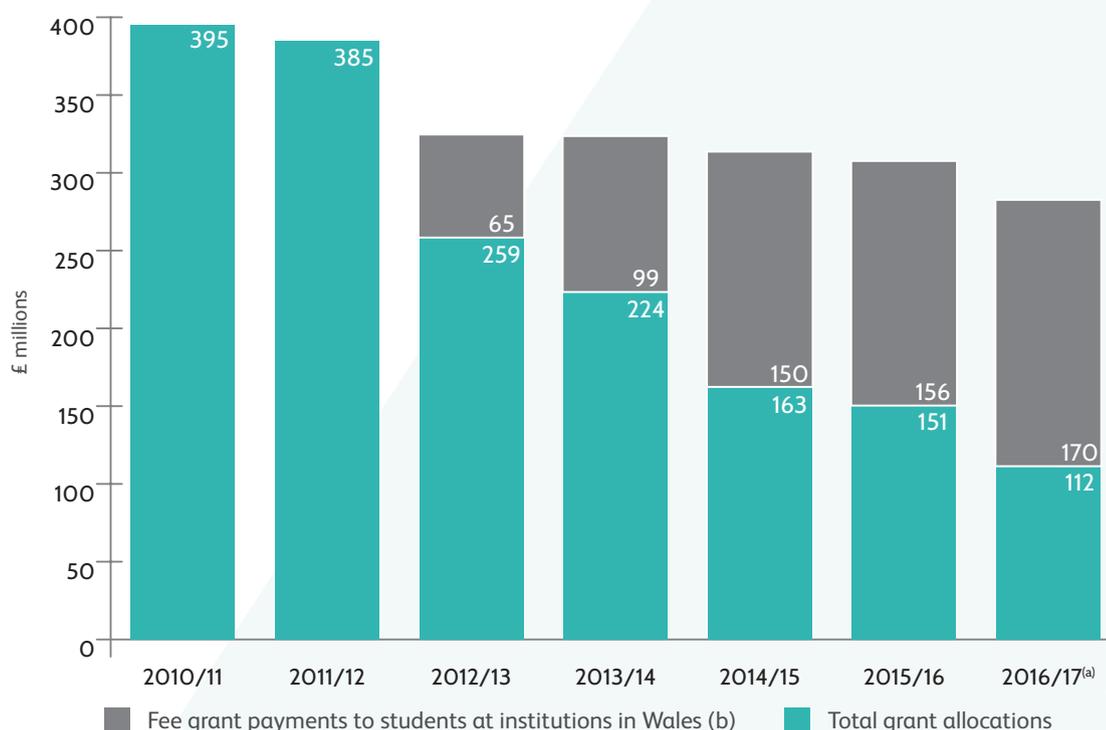
**Figure 3**

Source: Universities Wales based on the HEFCW Funding Circulars. (a) See note on page 12.

The result of this is that the overall public funding to universities from Welsh Government, whether directly or via students, has decreased.

Figure 4 shows the total investment from HEFCW's budget for grant funding for universities and support for students in Wales, since 2010/11, with the total reducing by £113m over the past 6 years.

## HEFCW Grant allocations and Tuition Fee Grant



**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 Circular W16/16HE which assumes that Welsh Government will use the ring-fenced £21.1m for TFG payments in addition to the £236.7m already transferred from the HE budget, and that the distribution by country will have similar proportions to the previous year.

## Restricted use of funding

**Universities are restricted in their use of tuition fee income, which means it does not replace public funding to universities in terms of the areas it can support.**

As shown on page 8, universities use their direct public funding to support areas that the market cannot – part-time and Welsh medium provision, expensive subjects and core research funding.

Public funding for tuition fees is paid directly to students (full-time undergraduates only) and it is then the student's choice where they spend this money. This means income to universities from tuition fees, received via

students, places universities under contract to students and not the Welsh Government or HEFCW. Higher fees has meant an increase in universities' contractual liabilities to students and an increase in student expectations of what is provided in return for their fees. Therefore tuition fee income cannot be used to subsidise those areas that public funding direct to universities does. Furthermore, as we have seen on page 9, the majority of subjects cost more than the effective fee universities receive to deliver, meaning universities do not make a margin on tuition fee income to use elsewhere.

## Areas no longer funded

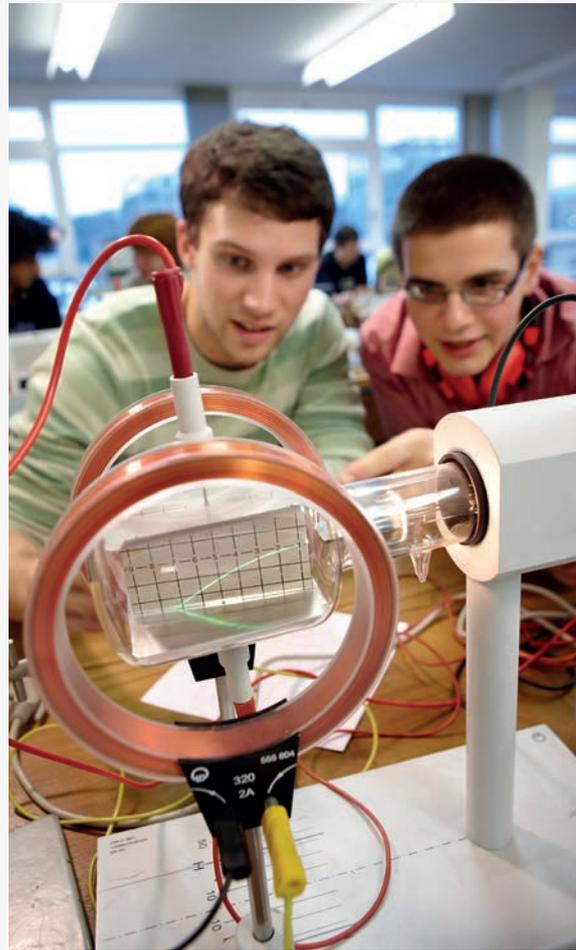
The funding HEFCW receives each year from the Welsh Government is made subject to terms and conditions set out in the Remit Letter. Given that direct public funding for universities, administered by HEFCW, has **reduced from £395m in 2010/11 to £112m in 2016/17**, there are areas that have been cut completely as a consequence:

### Innovation funding

The Innovation and Engagement Fund provided core formula-driven funding for highly specialised business engagement and commercialisation teams and provided match-funding used to lever in other sources of funding including European funding, Knowledge Transfer Partnerships, Innovate UK and Intellectual Property revenues.

Welsh Government no longer provides infrastructure funding to support this activity. This puts Wales at odds with the rest of the UK (Higher Education Innovation Fund in England is £160m a year).

Universities currently bid for funding via European programmes to fund knowledge exchange or by reinvesting their income to support future activities wherever possible.



### Capital funding

Welsh Government funding for capital funding was removed in 2012<sup>1</sup>. Universities now need to borrow to make capital investments in order to remain competitive and provide the level of experience which students now demand and which is on offer elsewhere in the UK. 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 very expensive to maintain.

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.

<sup>1</sup> With the exception of research capital payments which are paid in order to secure the same matched funding from BIS.

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## Other income

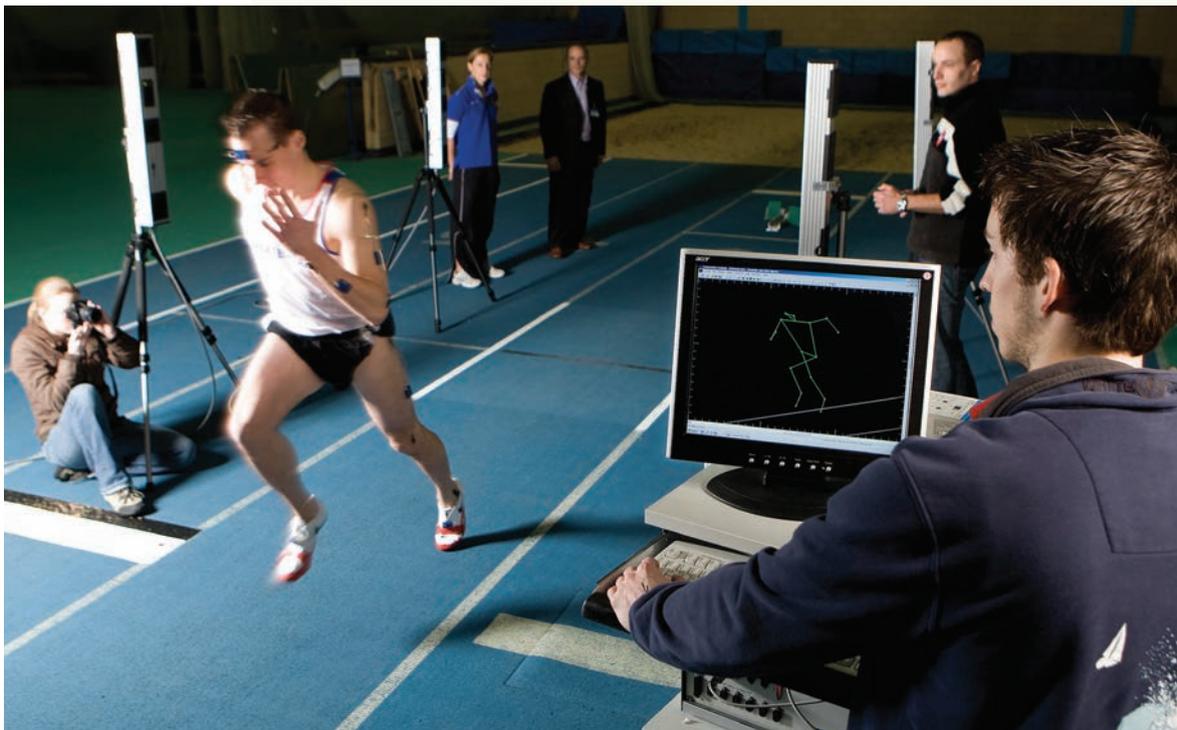
Universities receive income from sources other than tuition fee income and public funding from Welsh Government. This includes income from competitive research contracts and from knowledge exchange activities.

However this income would not exist if it was not for the investment made by Welsh Government. Core funding to universities provides infrastructure support in order for universities to build the base from which other activity can be generated.

- £214m income for research in 2014/15 from Research Councils, UK business and charities and EU and other international sources.
- £201m income for knowledge exchange activities in 2013/14 - sharing their expertise and collaborating with businesses and the wider community.
- £274m other income in 2014/15 e.g. consultancy services and facilities hire.



The income gained from these areas is to deliver specific pieces of work or projects. Whilst the activity from these projects generates knock-on benefits for Wales in terms of GVA and job creation, the income universities receive for the project puts them under contract with the research funder, business or charity, and therefore must be spent on delivering the project. **This income cannot be used to subsidise other areas of university activity or build reserves.**



## The overall financial position of universities in Wales



HEFCW's assessment<sup>2</sup> 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 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.**'

### Short term outlook

Net liquidity is a measure of the ability of universities to meet their immediate and short-term obligations through the holding of cash or near-cash assets. The average liquidity ratio for the sector in 2013/14 was 114 expenditure days. However this figure is significantly lower for some, with five institutions having less than 90 expenditure days. The net liquidity position varies throughout the year with the lowest liquidity point for most universities being immediately prior to the payment in May from the Student Loans Company (SLC) of 50% of the fee income for the students enrolled since September.

The reserves that universities hold represent the cumulative surpluses that have been retained for re-investment in the capital infrastructure and estate. Reserves do not represent liquid cash.

The increased borrowing secured by universities to fund the significant capital investment required to maintain the competitive position of the Welsh HE sector will require future surpluses that are at least sufficient to cover the cost of borrowing and future repayments.

Welsh universities have been successful in recent years in securing borrowings at a relatively low cost. However, most forms of borrowing typically include covenants which require universities to keep specified minimum liquidity and surplus levels and these covenant requirements are tested at least annually.

Maintaining a minimum liquidity level provides some protection against fluctuating cash flow (e.g. university cash flow is affected by when in the annual cycle fees are paid to them from the SLC), and future surplus levels will be impacted on by the significant volatility and uncertainty in the current pension liability valuations (as identified by HEFCE<sup>3</sup>).

<sup>2</sup> All data has been taken from HEFCW's circular *Analysis of the financial position of the HE sector 2013/14 with supplementary data from their forthcoming 2014/15 publication of this report.*

<sup>3</sup> HEFCE's *Financial health of the higher education sector: 2014-15 to 2017-18 forecast.*



## Short-term risks to universities

This guide has shown how university funding and student support arrangements, coupled with the sources of composition of university income, has changed significantly. This funding environment means that the sector is faced with considerable forecasting uncertainty.

### Recruitment

Tuition fee income currently contributes half of the sector's total income. This makes undergraduate higher education a marketised system. Welsh universities need to be able to compete with other UK universities and alternative providers to recruit students. However, there is a significant and widening gap in public funding between Welsh universities and universities in the rest of the UK that they are competing with. 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 Welsh Government Budget for 2016/17).

League tables are influential in student recruitment but Welsh universities are hindered by comparatively lower levels of public investment. The level of investment or amount of income that a university has to spend directly affects its league table rankings. The main league tables for instance include scores for the amount of spend on facilities, academic services, overall spend (per student), and staff (typically a student staff ratio).

This means that universities face uncertainty in predicting their student numbers, and therefore income from tuition fees from year to year.



## Medium to long-term risks to universities

### Research Capacity

Developing research capacity in Wales is crucial to ensuring greater levels of competitive funding are secured. It is essential that Wales invests to develop the critical mass of researchers and facilities it needs to attract top talent and new funding sources. Investment programmes such as the Sêr Cymru programme will contribute to increasing the critical mass, but any new investment must be on top of the core QR funding and not replace it, if any additional research development is to be achieved.

### Legislative Changes

Potential legislative changes for higher education in England will impact on Wales and the whole UK environment for HE.

## How universities manage these risks

### Efficiency, effectiveness and value for money

Universities have been bringing down costs and making their resources go further through making better use of estates, achieving year on year procurement efficiencies, asset sharing, and shared back office services.

### Strategies to achieve sufficient margins

Universities are aiming to generate margins of income over expenditure (i.e. surpluses) to provide financial stability and withstand the volatile environment within which they operate. For the sector to remain financially sustainable, it must be financially prudent and retain a level of reserves that is sufficient to respond to changes to student numbers, fluctuations in cash flow, uncertainty in the current pension liability valuations and servicing loans for capital investment.



## The Diamond Review of Higher Education funding and student finance arrangements for Wales

is committed to finding a sustainable solution for students and universities in a challenging fiscal environment and will be publishing its recommendations in Autumn 2016.



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