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Higher education finances



I have prepared this report for presentation to the National Assembly under the Government of Wales Act 2006.

The Wales Audit Office study team comprised Matthew Mortlock and Sophie Potter under the direction of Paul Dimblebee and with the engagement of PricewaterhouseCoopers LLP (PwC).

Huw Vaughan Thomas
Auditor General for Wales
Wales Audit Office
24 Cathedral Road
Cardiff
CF11 9LJ

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National Assembly for Wales on 21 November 2013**



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Summary

- 1 On 30 November 2010, the Welsh Government announced that, from the start of the 2012/13 academic year¹, higher education institutions in Wales would be able to charge tuition fees of up to £9,000 per annum for new full-time undergraduate students. The Welsh Government indicated that institutions would only be able to charge fees higher than £6,000 – later reduced to £4,000 – if they were able to demonstrate a commitment to widening access and other Welsh Government policy objectives.
- 2 To offset the cost of increased tuition fees, the Welsh Government offered access to a Tuition Fee Grant, worth up to £5,535², for Welsh-domiciled students regardless of where in the UK they chose to study (accessible also to EU-domiciled students studying in Wales³). In addition, the threshold for student loan repayments – tuition fee loans and maintenance loans – was to be increased from £15,000 to £21,000.
- 3 The provision for annual tuition fees of up to £9,000 and the uplifting of the student loan repayment threshold reflected proposals for English institutions set out by the UK Government on 3 November 2010. The UK Government proposals were a response to the publication, on 12 October 2010, of
- 4 an independent review of higher education funding and student finance – the ‘Browne Review’⁴.
- 5 In June 2011 and September 2011 respectively, the Scottish Government and the Northern Ireland Executive confirmed that institutions based in those parts of the UK would also be able to charge tuition fees of up to £9,000 from 2012/13 onwards for new students domiciled in other parts of the UK. However, the Scottish Government and Northern Ireland Executive each confirmed that fees for students domiciled locally would be lower, with the fees charged by Scottish institutions for students domiciled in Scotland being met in full by the Scottish Government. The increasing divergence in tuition fees policy across the UK means that the tuition fee costs for students undertaking the same course at the same institution, and how they are funded, now vary considerably (Appendix 2)⁵.
- 5 The introduction of the Tuition Fee Grant has changed the flow of Welsh Government higher education funding (Figure 1). The cost of the new Tuition Fee Grant is met from funding that the Higher Education Funding Council for Wales (HEFCW) had previously distributed direct to Welsh higher education institutions.

1 Throughout this report we refer to financial and other information based both on academic years (expressed, for example, as 2012/13) and financial years (expressed, for example, as 2012-13). The Welsh Government and the Higher Education Funding Council for Wales manage their accounts on a financial year basis, but policies on tuition fees and student finance relate to academic years and higher education institutions manage their accounts on an academic year basis. HEFCW's funding to the higher education sector also operates on an academic year basis.

2 £5,535 being the difference between the maximum tuition fee of £3,465 that would have been charged in Wales in 2012/13 had the Welsh Government not decided to allow institutions to charge higher fees and the new limit of £9,000. Eligible students can access a tuition fee loan to cover the remaining £3,465.

3 The Welsh Government is obliged, under EU rules, to offer equitable tuition fee support to students domiciled in other EU member states but studying in Wales. The same rules do not apply to maintenance loans or maintenance grants, although EU-domiciled students can be eligible for maintenance support in certain circumstances. Nor do these rules apply to students studying in Wales but from other parts of the UK.

4 Independent review of higher education funding and student finance, *Securing a Sustainable Future for Higher Education*, October 2010. The review group was chaired by Lord Browne of Madingley.

5 There are also differences in other maintenance loan and grant support for students domiciled in different parts of the UK.

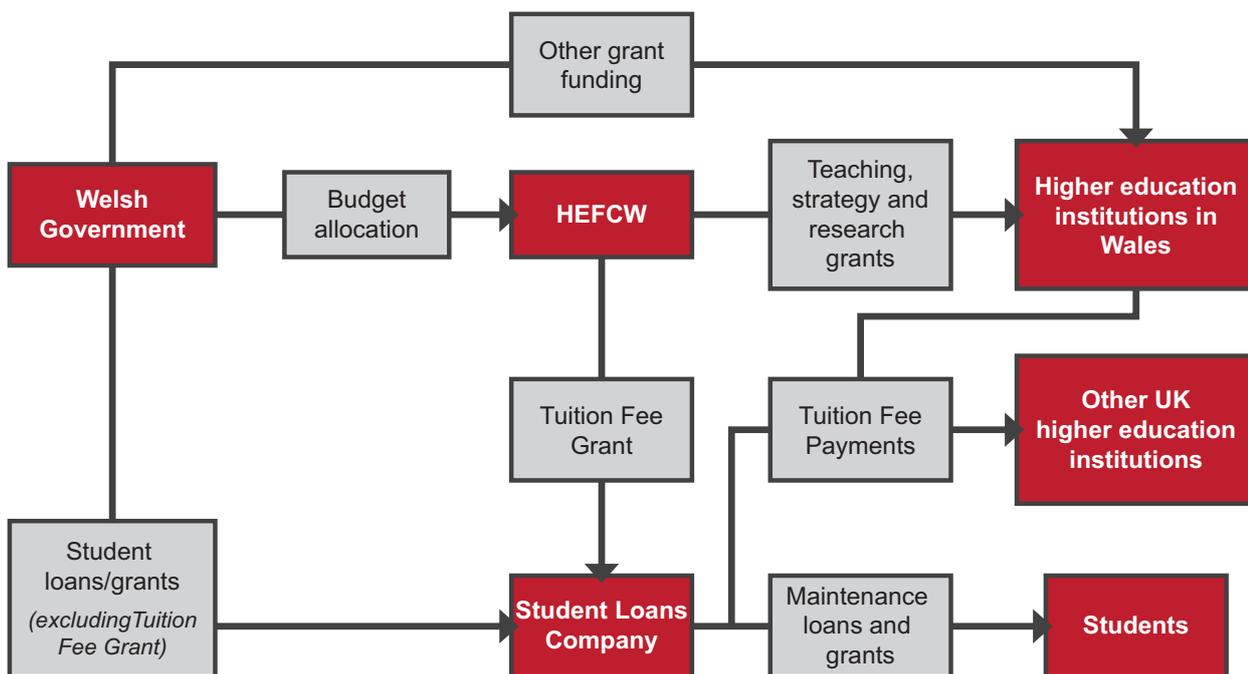


As all Welsh-domiciled students are eligible for the Tuition Fee Grant, some of that HEFCW funding now follows those students to institutions outside Wales. Conversely, Welsh institutions now benefit from additional fee income from students domiciled in other parts of the UK.

- 6 In announcing the introduction of the Tuition Fee Grant, the Welsh Government indicated that, with institutions also able to charge higher fees to students coming to Wales from other parts of the UK, the higher education sector would be no worse off in

real terms in 2016-17 compared with 2012-13. The updated analysis underpinning the Welsh Government's projections in its June 2013 *Policy Statement on Higher Education* reinforces this outlook. The Welsh Government has also continued to emphasise that its overall package of student finance support has been budgeted for through to the end of 2015-16. Assuming no change in policy before the 2016 National Assembly elections, any substantial changes to Welsh Government tuition fees policy would be unlikely to be implemented before the start of 2017/18 academic year. On 18 November 2013, the

Figure 1 – Welsh Government higher education and student support funding flows as from the start of 2012/13^{1, 2}



Notes
 1 Figure 1 only shows the flow of funding out from the Welsh Government. It does not show the flow of funding from HM Treasury to the Welsh Government, which underpins the payment of student loans, or the repayment of loans back to the Welsh Government via HM Revenue and Customs and the Student Loans Company. Higher education institutions in Wales also receive funding from other public sector organisations that are not shown here, but which ultimately flows from the Welsh Government budget, for example from NHS bodies.
 2 The Welsh Government had initially envisaged that HEFCW would pay the Tuition Fee Grant directly to Welsh higher education institutions rather than via the Student Loans Company.

Source: Wales Audit Office

Welsh Government announced plans for a wide-ranging review that will include an evaluation of the impact of the current tuition fees policy. The review will start in 2014 but the Welsh Government has indicated that it will not be concluded before the 2016 elections.

7 We examined whether higher education finances are in good health, particularly in light of recent changes in the Welsh Government's policy on funding higher education. Specifically, we examined whether:

- a the analysis underpinning the Welsh Government's policy on tuition fees was robust;
- b the Welsh Government and HEFCW managed the implementation of the tuition fees policy effectively; and
- c higher education institutions in Wales are in good financial health and have appropriate financial planning and management arrangements.

8 The findings and conclusions presented in this report are based on our review of a range of documentation supplied by the Welsh Government, HEFCW, higher education institutions and other stakeholders, as well as interviews with those parties. We engaged PricewaterhouseCoopers LLP (PwC) to assist us and, during March and April 2013, PwC visited nine higher education institutions, interviewing various senior staff and governors in the process. The methodology we employed for the study is set out in full in [Appendix 1](#).

9 We have concluded that while there were limitations in the Welsh Government's appraisal of its policy options and estimated costs have increased, overall the Welsh Government and HEFCW have implemented

the new policy effectively and the financial health of higher education institutions is generally sound.

There were limitations in the Welsh Government's appraisal of its policy options with regard to tuition fees and estimated costs have increased since the time of the policy decision

10 **While the Welsh Government considered that it needed to respond quickly to the UK Government's decision to introduce higher tuition fees in England, there were limitations in the Welsh Government's appraisal of its policy options.** The Welsh Government wanted to respond quickly to policy developments in England in order to provide certainty for Welsh higher education institutions and for students. The cross-border flow of students has a greater impact on Welsh higher education institutions than is the case elsewhere in the UK. The Welsh Government also considered that it needed time to put in place the necessary arrangements in advance of the start of 2012/13.

11 There was only limited engagement between Welsh Government and HEFCW officials to consider the potential impact of, and response to, the introduction of higher tuition fees in England. Building on pre-existing work associated with monitoring the costs of student finance, Welsh Government officials modelled the financial implications of a range of policy options, although not all potential options were modelled. The options considered by the Welsh Government included:



- a leaving fees unchanged in Wales with increased tuition fee loans for Welsh-domiciled students studying outside Wales;
 - b following the English model by introducing higher fees and increased access to tuition fee loans; and
 - c introducing the Tuition Fee Grant to cover the full additional cost of higher fees, with and without means testing of all eligible students or for students studying outside Wales.
- 12 The 'One Wales' agreement between the Labour and Plaid Cymru coalition government in 2007 included a commitment to seeking to mitigate the effects on Welsh-domiciled students if the UK Government announced the removal of the previous cap on fees. In effect, the introduction of the Tuition Fee Grant on a non means-tested basis offsets in full the effect of higher tuition fees on all eligible Welsh-domiciled students.
- 13 The financial modelling was based on a common set of underpinning assumptions and the Welsh Government recognised that the strength of the evidence for different assumptions varied. Apart from varying its assumptions about the tuition fees institutions would charge, the Welsh Government's modelling did not explore the overall sensitivity of the results to changes in those assumptions. Welsh Government officials have emphasised to us that they had considered the affordability of the preferred policy option, and its effect on the income of higher education institutions in Wales, in the event of any substantial change in student numbers and cross-border flows. Nevertheless, in our view, the extent of the analysis carried out by the Welsh Government across all policy options, to assess the sensitivity of the modelling to changes in key variables that were subject to uncertainty, such as student numbers and cross-border flows, was insufficient.
- 14 The Welsh Government based its policy decision on what has proven to be an optimistic assumption of an average fee of £7,000 in 2012/13 across Wales, England and Northern Ireland but with an assumed fee for Scottish institutions of £2,190. Although officials had also produced a model based on a maximum £9,000 fee across Wales, England and Northern Ireland, this model was not presented to the full Cabinet to support its decision making. However, the £9,000 model had been shared with and discussed by the then Minister for Education, Children and Lifelong Learning and certain other Cabinet members.
- 15 **The cost of the Tuition Fee Grant for 2012-13 to 2016-17 is now expected to be substantially higher than forecast in November 2010, but the estimated cost of issuing student loans is unchanged and estimated loan policy write-off charges have reduced.** Welsh Government officials have been updating their modelling to reflect changes in the underpinning assumptions, including the knowledge that institutions are charging higher fees than the Welsh Government had expected in its November 2010 modelling. In February 2013, the Welsh Government also decided to reduce its estimates of the cost of student support by five per cent. The reduction was to reflect evidence relating to the accuracy of historic forecasts. However, out-turn data for 2012-13 indicates that Tuition Fee Grant costs and student loan costs that year were higher than the Welsh Government had projected in February 2013.

- 16 Compared with its November 2010 projections, the Welsh Government's updated modelling in February 2013 shows that for the five-year period from 2012-13 to 2016-17:
- a the estimated cost of the Tuition Fee Grant has increased by 24 per cent, from £653 million to £809 million;
 - b the total estimated cost of issuing tuition fee loans is largely unchanged at just over £1.6 billion, with an increase in the estimated cost of maintenance loans being offset by a reduction in the estimated cost of issuing tuition fee loans; and
 - c the estimated cost of student loan policy write-off charges has fallen by 13 per cent, from £549 million to £476 million, although the Welsh Government expects that planned changes in the way this cost is estimated will reverse some of this reduction.

Overall, the Welsh Government and HEFCW have implemented the new tuition fees policy effectively but a number of issues are still to be resolved

- 17 **The Welsh Government has overseen the work required to implement current tuition fees policy effectively to date, but further action is needed on part-time tuition fees, to address weaknesses in processing student finance applications, and on the role of HEFCW.** The Welsh Government delivered to time the changes needed to support the introduction of higher tuition fees and the Tuition Fee Grant in 2012/13. We found no evidence of any significant problems arising from the changes, for example regarding the flow of funding around the system.
- 18 The Welsh Government has monitored closely forecast student finance income and expenditure and the associated risks. An area of significant risk concerns the statistical modelling to calculate the value of the annual loan policy write-off charge. The Welsh Government needed to consider its options because the UK Government had indicated that it would not maintain beyond 2012-13 the model that the Welsh Government had been using previously. The Welsh Government has decided recently to adopt a model that has been in use across other parts of the UK since 2011-12.



- 19** The Welsh Government has recognised that the model it is adopting is flawed, the basis of the model's results for Wales is unclear, and the model is subject to further change. The Welsh Government considers that the best way forward is to work with the UK Government, and the other devolved nations, to influence the future development of the model. However, there is, as yet, no agreement on the inclusion of any of the devolved administrations in the further development of the model. The Welsh Government is discussing with HM Treasury additional funding cover for the one-off 'stock-charge', worth an estimated £326 million, that will need to be accounted for because of the move to the new model. The Welsh Government also expects that the new model will increase annual loan policy write-off charges by around five per cent.
- 20** Planned changes to the tuition fee and finance support arrangements for part-time students have not progressed as the Welsh Government had intended. In June 2011, the Welsh Government announced a proposal for part-time students that would mirror the introduction of higher tuition fees and the Tuition Fee Grant for full-time students, but with a maximum fee of £7,000 pro rata. The Welsh Government has since put these changes on hold because of concerns about their impact on the part-time market, regardless of the availability of the Tuition Fee Grant. In March 2013, the Welsh Government announced that eligible students starting part-time courses in 2014/15 will, for the first time, be able to access tuition fee loans. Although the Welsh Government has indicated that it will provide additional funding to enable tuition fees for part-time students to remain at current levels, a longer-term solution needs to be reached to provide greater certainty across the part-time market.
- 21** The Welsh Government's proposals to centralise the student finance system through the Student Loans Company need to address weaknesses in the current local authority management arrangements and the increased risk of fraud arising from the new tuition fees policy. In 2012, work undertaken by the Wales Audit Office on behalf of the Welsh Government highlighted significant weaknesses and inconsistencies in the processing of student finance applications at four local authorities. Following further assurance work by the Welsh Government and HEFCW, the Welsh Government has recently commissioned the Wales Audit Office to review the operation of controls in relation to student finance applications at nine other local authorities. The Wales Audit Office is also undertaking a data matching exercise on applications for student finance from students starting higher education in 2012/13 and 2013/14 to ensure appropriate residence can be determined.
- 22** The Welsh Government is confident that lessons have been learned from the problems experienced with an equivalent process of centralisation in England. It expects that the Student Loans Company will process all student finance applications for Welsh-domiciled students starting their courses in 2014/15, and then for new and returning students from 2015/16.
- 23** Changes to the higher education regulatory framework will not now take effect until the start of 2015/16 at the earliest following further consultation on the Welsh Government's plans. The core purpose of the Higher Education (Wales) Bill as now proposed will be to strengthen HEFCW's regulatory functions against the backdrop of a changing higher education landscape and the changing flow of Welsh Government funding to the sector.

The Welsh Government had intended that these changes would come into effect from the start of 2014/15. The Welsh Government is confident that, in the meantime, higher education institutions will continue to be supportive of Welsh Government policy objectives within the context of the current regulatory framework.

24 Overall, HEFCW has responded effectively to the challenges it has faced as a result of the Welsh Government's tuition fees policy.

The introduction of the Tuition Fee Grant has reduced the extent to which HEFCW can influence Welsh higher education institutions through its teaching funding allocations and HEFCW has limited influence over the overall cost of the Tuition Fee Grant. In particular, HEFCW is not able to control the amounts payable to institutions outside Wales⁶.

25 In changing the way it allocates its teaching funding for full-time courses, HEFCW has taken action to rebalance income across the higher education sector, control costs, recognise institutions' performance against certain strategic targets and preserve some support for high-cost courses. The changes have not been universally welcomed and institutions have been affected in different ways. There may also be some unintended consequences, including a risk that the imposition of a cap on the total amount of Tuition Fee Grant that individual Welsh institutions can receive could limit opportunities for Welsh-domiciled students to study in Wales.

26 In order to keep within the allocation provided by the Welsh Government, HEFCW has had to reduce its funding for part-time and

postgraduate courses and in support of certain strategies and policy initiatives. However, institutions are expected to specify in their tuition fee plans how they will use some of their additional tuition fee income to support some of the sorts of activities previously funded by HEFCW. While we consider that HEFCW has managed these changes well, it will need to keep the current arrangements under review. It is not certain that the current arrangements for distributing HEFCW funding will be sustainable, or that they will support institutions and the delivery of Welsh Government policy objectives, in the most effective way. Notwithstanding any additional fee income that institutions can now generate, and while dependent on future funding decisions in Wales and England, there are concerns amongst Welsh institutions that they may face a growing funding gap compared with English institutions.

27 The introduction of higher tuition fees from 2012/13, combined with the introduction of the Tuition Fee Grant and the reduction in HEFCW's direct teaching funding, increases the significance of HEFCW's role in regulating institutions' fee plans. HEFCW has managed the new annual fee planning process well, particularly given the time constraints it faced in order to develop the arrangements for 2012/13 well in advance of the start of that academic year. Both HEFCW and the Welsh Government have recognised that the process needs further development, although the current arrangements will remain in place for 2014/15 and institutions' fee plans for that academic year have already been approved by HEFCW. HEFCW's formal evaluation of the delivery of the 2012/13 fee plans is currently underway.

⁶ Excluding funds for research and for 'strategy and initiatives' and HEFCW's own running costs, the cost of the Tuition Fee Grant is expected to consume around two-thirds of HEFCW's remaining teaching funding allocation in 2013/14 (around £167 million of £263 million). The cost of the Tuition Fee Grant is then expected to increase to around £225 million in 2014/15, of which around £68 million would be payable to institutions outside Wales.



- 28** HEFCW adopts an effective risk-based approach to monitor the financial sustainability and governance of higher education institutions. HEFCW's 'Institutional Risk Review' process assesses risks in relation to sustainability (including financial health), governance and management, estates, research and knowledge transfer, students and quality, and strategic direction. HEFCW reports an overall risk rating to each institution. In spring 2013, two institutions were assessed to be 'low risk' overall and eight were judged to be 'moderate risk'. No institutions were considered 'high risk'.
- 29** HEFCW's monitoring of the higher education sector's performance against key Welsh Government policy objectives over the past few years shows a mixed performance, and HEFCW has recognised the need to create a more coherent performance measurement system. HEFCW aims to align and integrate its headline performance measures for the sector, as set out in its new 2013-14 to 2015-16 corporate strategy, with other aspects of its work, such as fee planning. However, HEFCW needs to revisit some of the targets it has set for the sector, in particular its target for part-time study.
- 30** **Implementation of the new tuition fees policy has come at a time when the Welsh Government and HEFCW have been managing the impact of measures to reduce their running costs.** The Welsh Government's higher education division saw its staff numbers reduce by around 22 per cent between April 2010 and April 2013. HEFCW's running cost allocation for 2013-14 is 15 per cent lower in cash terms than for 2009-10, with the organisation having undergone a restructuring exercise and staffing reductions in 2012-13.

While they face significant challenges and uncertainties, the financial health and financial planning and management arrangements of higher education institutions in Wales are generally sound

- 31** **The financial health of higher education institutions in Wales is generally sound, although institutions face significant challenges and uncertainties in an increasingly competitive operating environment.** Based on the financial forecasts that institutions submitted to HEFCW in July 2012 and information in institutions' audited financial statements:
- a** The total income of the sector is forecast to grow, but this depends heavily on institutions' ability to attract students. As at July 2012, institutions forecast that income would remain broadly flat in cash terms between 2011/12 and 2012/13, at around £1.26 billion, before increasing to £1.45 billion in 2015/16. Institutions forecast that funding body grant income in 2015/16 would be £226 million lower than in 2011/12 (due largely to the expected draw on that funding of the Tuition Fee Grant). However, institutions forecast that tuition fee income would be £375 million higher in 2015/16 than in 2011/12, including a £313 million increase in fee income from full-time UK and EU-domiciled undergraduate students and a £65 million increase in income from overseas (non-EU students).

- b** Expenditure is forecast to increase in line with income between 2011/12 and 2015/16. Staff costs represent institutions' largest area of expenditure, equivalent to 57 per cent of total income in 2011/12.
- c** The average percentage surplus across the sector is forecast to fall in 2012/13, before recovering in 2014/15 and 2015/16. However, there are wide variations between institutions and, the average percentage surplus has been and is forecast to be less than in England. Some Welsh institutions have had planned short-term deficit budgets while others have had historic cost surpluses of over five per cent.
- d** Most Welsh institutions have strong levels of cash resources compared to their expenditure and are forecasting that this will continue. Institutions also have strong levels of discretionary reserves⁷.
- e** On average, external borrowing across Welsh institutions is lower than in England but is predicted to increase to support investments, and some Welsh institutions already have high levels of external borrowing relative to their income. The higher education sector in Wales continues to be an attractive area for investment by banks, but institutions may need to look for more innovative ways of funding capital projects.

- 32** **Higher education institutions' financial planning and management arrangements are evolving appropriately to help meet their future challenges.** To strengthen governance, institutions have focused on the composition of their governing bodies. Institutions have well-established financial planning arrangements, which appear to be reasonably sound, with a particular emphasis on identifying income generation opportunities. Institutions' financial management arrangements are also generally sound.
- 33** Institutions have recognised the need for a change in culture and structure to help meet future strategic and financial challenges and to enable them to compete nationally and internationally. Some institutions have moved at a quicker pace than others, reflecting their particular circumstances. While institutions' attitude to risk varies, we found that senior managers and governors demonstrated a good awareness of the risks and challenges associated with the new higher education funding and student finance regime. All institutions have plans to invest in improving the student experience to enhance their competitiveness.

⁷ Discretionary reserves are defined as general reserves and expendable endowment funds. This measure of discretionary reserves excludes the impact of measurable pension fund deficits, which amounted to £284 million in 2011/12.



Recommendations

In framing our recommendations, we note that some of the issues covered by the report are also subject to other reviews, and we have assumed that the Welsh Government and HEFCW will respond positively to any fresh issues of concern that arise. We have also assumed that the Welsh Government and HEFCW will continue to update their modelling of the future costs arising from the tuition fees policy and that HEFCW will keep under review the impact – on institutions and on the delivery of Welsh Government policy objectives – of the changes it has made to the distribution of higher education funding. In addition, we have assumed that in developing fee planning arrangements for 2015/16, HEFCW will take full account of findings from its evaluation of the delivery of institutions' 2012/13 fee plans.

- 1 The fuller impact of the introduction of higher tuition fees and the Tuition Fee Grant will emerge over the next two to three years as more students who entered higher education before 2012/13 leave the system. **On 18 November 2013, the Welsh Government announced plans for a wide-ranging review that will include an evaluation of the impact of the current tuition fees policy. Amongst other things, we suggest that this review should address:**
 - the direct and opportunity costs arising from current policy;
 - the impact on students, including from an equal opportunities perspective;
 - the extent to which higher education institutions within Wales and beyond may be restricting access to financial support to Welsh-domiciled students because of the introduction of the Tuition Fee Grant;
 - 2 The Welsh Government believes that five per cent of students potentially eligible for the Tuition Fee Grant in 2012/13 did not take it up, although it has based its latest financial modelling on a more prudent assumption of 98 per cent take-up. **In the context of the centralisation of the student finance system through the Students Loan Company, we recommend that the Welsh Government:**
 - the impact on higher education institutions, particularly their financial health and competitive standing;
 - comparison with the impact of policies adopted in other parts of the UK; and
 - future policy options and their likely costs and benefits, including giving further consideration to the question of parity between full-time and part-time study.
- commissions work to improve its understanding of why some eligible students are not claiming the Tuition Fee Grant;
 - reviews the processes that, together, aim to ensure that all students are fully aware of their entitlement both to the Tuition Fee Grant and to other loan and grant support; and
 - at the level of individual institutions, compares Student Loans Company data on the number of students being supported by the Tuition Fee Grant with enrolment data, to identify any low local uptake rates.

- 3 In its most recent, February 2013, financial modelling, the Welsh Government reduced its estimates of future costs associated with student loan and grant support, including the Tuition Fee Grant, by five per cent to take account of the historic accuracy of its forecasts. However, out-turn data for 2012-13 showed that the February 2013 modelling underestimated the costs of issuing student loans and the Tuition Fee Grant in 2012-13. **We recommend that the Welsh Government keeps the historic accuracy of its forecasts under review and that, in reporting estimated costs, it makes clear the adjustment for historic accuracy that has been applied and the basis for it.**
- 4 The planned transfer of responsibility for processing student finance applications to the Student Loans Company should, in principle, help to address the weaknesses and inconsistencies that we have identified in respect of current local authority managed arrangements. **We recommend that:**
- **the Welsh Government, in conjunction with HEFCW, specifies the control arrangements in respect of student finance applications (particularly in respect of eligibility controls) that it expects the Student Loans Company to apply and that the Welsh Government confirms these expectations as part of its revised service level agreement with the Student Loans Company; and**
 - **that HEFCW participates as a full member of the Welsh Government's Student Finance Wales Modernisation project board.**
- 5 Both the Welsh Government's higher education division and HEFCW have been managing the implementation of the Welsh Government's tuition fees policy at a time when staff numbers have been reducing in response to wider public finance constraints. Although there are associated costs, a robust system of regulation can deliver benefits to the sector, such as increasing the willingness of the banking sector to lend. **In the context of the ongoing development of the Higher Education (Wales) Bill and wider changes in the higher education regulatory framework, we recommend that:**
- **the Welsh Government and HEFCW consider how, together, they can make the best use of the resources and expertise at their disposal to support the development and implementation of Welsh Government higher education policy;**
 - **the Welsh Government and HEFCW agree a clear protocol for HEFCW's future engagement in policymaking; and**
 - **the Welsh Government assures itself that the new regulatory framework and the resources invested in its operation are proportionate to the size and scale of the higher education sector in Wales when compared with arrangements operating elsewhere in the UK.**



6 In June 2013, the Welsh Government published a new policy statement on higher education. Before this, HEFCW published a new corporate strategy, which included some new or revised targets for the higher education sector. The corporate strategy included a target that ‘the percentage change in the number of part-time students attending higher education courses in Welsh higher education institutions and further education institutions to be equal to, or greater than, the comparable figure for the UK’. It also referred to an overall outcome that ‘improved part-time learning opportunities are offered’. However, there is evidence of a significant downward trend in part-time student numbers in England. **We recommend that:**

- **the Welsh Government and HEFCW consider whether the targets HEFCW has set for the higher education sector in its 2013-2016 corporate strategy are consistent with the aims set out in the Welsh Government’s policy statement on higher education; and**
- **for part-time study and part-time student numbers, HEFCW seeks to incorporate measures that better reflect the intended outcome that ‘improved part-time learning opportunities are offered’.**

7 HEFCW’s ‘Risk Review’ process includes an assessment of risk in six key areas: sustainability (which includes financial health), governance and management, estates, research and knowledge transfer, students and quality, and strategic direction. Based on its assessment across the six areas, HEFCW communicates a single holistic risk rating to individual institutions. **We recommend that HEFCW includes the risk assessment evaluation for each of the areas it assesses in the letters that it issues to institutions**

to report its overall risk assessment. This would provide greater transparency and offer institutions, and their governors, greater insight into HEFCW’s evaluation.

8 Higher education institutions’ financial planning and management arrangements are generally sound. However, we did identify variations in practice in a number of key areas and, in light of the financial challenges and uncertainties facing the sector, we consider that HEFCW is well placed to play a more active role in identifying, disseminating and promoting good practice. **We recommend that:**

- **HEFCW plays an active role in identifying, disseminating and promoting good practice; and**
- **institutions review the adequacy of their arrangements in the following areas:**
 - **cash flow forecasting, in particular whether they are suitable in light of future challenges;**
 - **the production of monthly management accounts on an accruals rather than commitment basis, particularly in light of the requirements imposed by banks within covenants attached to loans;**
 - **the extent to which course profitability is analysed; and**
 - **the skills needed to support business planning, covenant monitoring and increased levels of communication with banks and other funders in an uncertain and challenging environment.**

Part 1 – There were limitations in the Welsh Government’s appraisal of its policy options with regard to tuition fees and estimated costs have increased since the time of the policy decision

1.1 The cost of student loans, the Tuition Fee Grant and other maintenance grants depend on a range of factors. These include: tuition fee rates; student numbers and cross-border flows; the uptake of loans and grants; loan repayment thresholds and repayment rates; and wider economic forces, including inflation and interest rates. Modelling future costs also has to account for changes in the support available to students entering higher education at different points in time. The Welsh Government’s accounting arrangements for student finance support are complex (Box 1).

1.2 This part of our report considers:

- a** the way in which the Welsh Government arrived at its decision to allow higher education institutions in Wales to charge higher tuition fees, of up to £9,000 in 2012/13, and to introduce the Tuition Fee Grant, worth up to £5,535, for all Welsh-domiciled students and for EU-domiciled students studying in Wales; and
- b** the estimated costs associated with the introduction of higher tuition fees, in respect of student loans and the Tuition Fee Grant, over the period 2012-13 to 2016-17, comparing the Welsh Government’s initial November 2010 projections with its latest estimates.

Box 1 – Welsh Government accounting arrangements for student finance support

The cost of providing student loans (tuition fee loans or maintenance loans) is treated as ‘Annually Managed Expenditure’ (AME) and sits outside of the Departmental Expenditure Limit (DEL) budget set for the Welsh Government through the UK Government’s spending review process. The AME budget includes the cost of providing student loans set against income from the Welsh Government’s share of loan repayments collected by HM Revenue and Customs and the Student Loans Company, over which the Welsh Government has no direct control. The AME budget includes various income and expenditure adjustments relating to the treatment of interest on loans and other technical accounting issues. The Welsh Government is able to draw down additional funds from HM Treasury if required. Unspent funding, due to lower-than-expected demand, has to be returned to HM Treasury.

From its main DEL budget the Welsh Government has to account for an annual adjustment based on the estimated level of future loan policy write-offs for example because of death, students’ earnings not reaching the repayment threshold or loans not being fully repaid by the end of the repayment period. This adjustment also takes into account the interest subsidy on student loans – the difference between the market rate and the interest actually charged to students. Throughout this report, we refer to this charge as the ‘loan policy write-off charge’.

All other grant support for students is met from within the DEL budget although this too is demand led. HEFCW’s funding allocation, from which the Tuition Fee Grant is paid, is part of the DEL budget.



1.3 The costs associated with student loans and the Tuition Fee Grant are part of a wider package of Welsh Government support to full-time undergraduate students, with the other grant support expected to cost £787 million between 2012-13 and 2016-17. At £682.1 million, the means-tested Assembly Learning Grant and the Special Support Grant ([Appendix 2](#)) comprise by far the largest portion of this estimated cost⁸.

While the Welsh Government considered that it needed to respond quickly to the UK Government's decision to introduce higher tuition fees in England, there were limitations in the Welsh Government's appraisal of its policy options

The Welsh Government wanted to respond quickly in order to provide certainty for Welsh higher education institutions and students, and because it considered that it needed time to put in place the necessary arrangements in advance of the start of 2012/13

1.4 In advance of the October 2010 'Browne Review' report on *Securing a Sustainable Future for Higher Education*, Welsh Government officials had met with members of the review team in early August 2010 and the [then] Minister for Education, Children and Lifelong Learning met Lord Browne in early September 2010. The Welsh Government had already established an internal working group to consider its response to the review, involving officials from its higher education division with input from statisticians, economic advisers and legal services.

1.5 The Welsh Government announced its new tuition fee policy on 30 November 2010, less than a month after the UK Government had set out its proposals for tuition fees in England. The Scottish Government and the Northern Ireland Executive did not announce their decisions on the introduction of higher tuition fees until June 2011 and September 2011 respectively. The Welsh Government considered that it was important to respond quickly to the UK Government's proposals due to:

- a** the potential impact of the UK Government's policy on the Welsh Government's budget – because of the impact of the additional costs associated with providing tuition fee loans for Welsh-domiciled students studying in England;
- b** the potential impact of the UK Government's policy on the competitive position of Welsh higher education institutions given the pattern of student flows between Wales and England – the Welsh Government wanted to provide certainty for institutions and students about future policy in Wales; and
- c** the need to allow sufficient time to further develop and implement the Welsh Government's proposed arrangements in advance of the start of 2012/13.

1.6 Cross-border student flows are of greater significance to Welsh Government policy and funding, and to Welsh higher education institutions, than is the case elsewhere in the UK ([Figure 2](#)). Of 24,765 first-year full-time and UK-domiciled undergraduate student enrolments at Welsh institutions in 2011/12, 12,675 (51 per cent) were Welsh-domiciled and 11,745 (47 per cent) English-domiciled. In contrast, for English institutions, 96 per cent of

⁸ Other full-time allowances provide additional grants for students meeting particular eligibility criteria. The allowances include Disabled Students Allowance, Adult Dependent Grant, Parental Learning Allowance, Childcare Grant and Travel Grant. In addition, students entering higher education between 2006/07 and 2009/10 were eligible for an 'Assembly Fee Grant' to help meet the cost of their tuition fees. In 2010/11, the grant was replaced with extended access to tuition fee loans and an increase in the value of maintenance grant support. The Welsh Government expects to make its final payments of the Assembly Fee Grant in 2014-15.

the intake were English-domiciled, with 86 per cent of the intake of Scottish institutions being Scottish-domiciled and 97 per cent of the intake of Northern Irish institutions (of which there are two) being from Northern Ireland.

1.7 Of the 19,290 Welsh-domiciled students starting full-time undergraduate study in 2011/12, 12,675 (66 per cent) studied in Wales with 6,515 (34 per cent) studying in England. The figures for Wales are similar to the flow of students out of Northern Ireland, but over 90 per cent of English and Scottish-domiciled students chose to study in their home countries.

There was only limited engagement between Welsh Government and HEFCW officials to consider the potential impact of, and response to, the introduction of higher tuition fees in England

1.8 In early September 2010, Welsh Government officials met HEFCW officials to discuss the anticipated outcome of the 'Browne Review'. The meeting focused on the options of following the likely English model – higher tuition fees and reduced public grant funding for higher education – or maintaining the status quo in Wales.

1.9 Subsequent to that meeting, HEFCW officials were not invited to contribute to the development of the Welsh Government's policy response to the introduction of higher tuition fees in England prior to the Welsh Government's own policy announcement. This was despite the fact that HEFCW would be

Figure 2 – UK-domiciled first-year full-time undergraduate student enrolments in 2011/12 by domicile of student and location of higher education institution¹

Domicile of student	Location of institution				% of students attending an institution in their home country	Total
	England	Wales	Scotland	Northern Ireland		
England	353,020	11,745	3,355	245	96%	368,370
Wales	6,515	12,675	90	10	66%	19,290
Scotland	1,760	65	28,710	15	94%	30,565
Northern Ireland	3,735	200	1,070	8,960	64%	13,970
Guernsey, Jersey and Isle of Man	1,050	70	45	5	n/a	1,175
Total	366,090	24,765	33,270	9,240		433,375

Note
¹ In publishing this data, the Higher Education Statistics Agency rounds all the figures to the nearest five. Consequently, the totals do not necessarily equal the sum of the figures for the different parts of the UK.

Source: Higher Education Statistics Agency, Statistical First Release 183, January 2013



required to play a key role in delivering the policy, as the payer of Tuition Fee Grant from its funding allocation.

The Welsh Government had a general appreciation of the likely financial and other impacts of its policy decision, but there were limitations in the extent of the analysis that underpinned the decision

Welsh Government officials modelled the financial implications of a range of policy options

1.10 In advance of the November 2010 policy announcement, Welsh Government officials produced forecasts for the costs of eight different policy scenarios over the period 2012-13 to 2020-21. Two scenarios were based on changes in the student loan repayment system but with no change in tuition fees across the UK. These models, which became redundant once the UK Government confirmed that it was going to increase tuition fees in England, were:

- a** the raising of the annual income threshold above which students have to start repaying loans (from £15,000 to £21,000) and extension of the repayment period from 25 to 30 years from 2012/13, while retaining the partial cancellation of maintenance loans⁹; and
- b** as above but removing the partial cancellation of maintenance loans.

1.11 With one exception (Option A below), the remaining six scenarios were predicated on higher education institutions being able to charge tuition fees of up to £9,000 across Wales, England and Northern Ireland in 2012/13, but with the assumed fee for Scottish

institutions left at £2,190¹⁰. The six scenarios, each incorporating the proposed changes to the loan repayment threshold and loan repayment period, were:

- Option A* No tuition fee increase in Wales with increased tuition fee loans for Welsh-domiciled students studying outside Wales.
- Option B* Tuition fee increase in Wales with increased tuition fee loans for all Welsh-domiciled students, and for EU-domiciled students in Wales.
- Option C* Tuition fee increase in Wales with non means-tested Tuition Fee Grant for all Welsh-domiciled students, and for EU-domiciled students in Wales (the policy subsequently introduced).
- Option D* Tuition fee increase in Wales with means-tested Tuition Fee Grant for all Welsh-domiciled students, and for EU-domiciled students in Wales.
- Option E* Tuition fee increase in Wales with means-tested Tuition Fee Grant for Welsh-domiciled students studying outside of Wales and non means-tested Tuition Fee Grant for Welsh and EU-domiciled students in Wales.
- Option F* Tuition fee increase in Wales with non means-tested Tuition Fee Grant for all Welsh-domiciled students, and for EU-domiciled students in Wales, but with no partial cancellation of maintenance loans (Options A to E each retained the partial cancellation).

⁹ From the start of 2010/11, the Welsh Government had already introduced the partial cancellation of £1,500 of the total value of a student's maintenance loans once the first repayment is made. A representative from the National Union of Students Wales told us that there were concerns about the overall complexity of the student finance system and students' awareness of their entitlements, including the partial cancellation of maintenance loans. By making a small repayment at the earliest possible opportunity to trigger partial cancellation of their maintenance loans, students could make a saving on the interest that would otherwise be charged on that portion of the loan.

¹⁰ The Scottish fee was based on the average 2011/12 fee increased by 2.7 per cent for inflation. The Welsh Government left the Scottish fees unchanged as the Scottish Government had not, at that point, made any announcement on higher fees. While the same was true of Northern Ireland, the number of Welsh-domiciled students studying in Northern Ireland is very small (Figure 2) and so any change in the assumed fee would have little impact on the Welsh Government's overall calculations.

1.12 There were, potentially, other policy options available. For example, none of the options reflect the approaches adopted by the Scottish Government and Northern Ireland Executive from 2012/13 ([Appendix 2](#)). In addition, the Welsh Government could have considered introducing the Tuition Fee Grant at a lower rate. Another alternative might have been to explore whether the payment of Tuition Fee Grant to Welsh-domiciled students studying outside of Wales could be limited to those whose course needs cannot be met within Wales. Welsh Government officials have told us that it would not have been possible to adopt policy options other than those they considered in time for the 2012/13 student intake due to them requiring primary legislation – the Welsh Government did not have primary law-making powers at that time – or because of practical constraints in the administration of student finance.

The financial modelling was based on a common set of underpinning assumptions and, with the exception of assumptions about average tuition fees, did not explore the overall sensitivity of the results to changes in those assumptions

1.13 The financial modelling undertaken by Welsh Government officials compared the costs of each policy option to a baseline model predicated on there being no change from the tuition fees policy and student support arrangements that were in place for 2011/12. The modelling built on pre-existing work associated with the ongoing monitoring of the costs of student finance. Each model used the same set of assumptions about:

a uprating for inflation – 2.7 per cent a year from 2012-13;

b interest rates – 2.2 per cent above the retail price index; and

c student numbers and student flows into and out of Wales.

1.14 Other common assumptions were applied where relevant, including:

a the number of students benefiting from institutions providing partial tuition fee waivers, thereby reducing the amount of Tuition Fee Grant payable (estimated at around 5.7 per cent of all students eligible for Tuition Fee Grant);

b take-up of loans and grants and loan repayments;

c means-testing thresholds and tapering – based on arrangements already in place for maintenance grant support;

d the translation of the costs of providing student finance support from an academic year basis to a financial year basis; and

e tuition fee rates – the Welsh Government's ultimate policy decision was based on an estimate that in those circumstances where institutions could charge higher tuition fees, the average fee in 2012/13 would be £7,000 (although officials had also produced modelling based on the maximum £9,000 fee).



- 1.15** The Welsh Government had recognised that ‘elite’ institutions were likely to increase fees to the maximum of £9,000 and that other institutions might do likewise, meaning that the average fee level could rise. However, officials had undertaken an analysis of students’ place and course of study, based on 2008/09 figures, and applied an assumed £9,000 fee across Oxbridge and Russell Group institutions and £6,000 elsewhere, or £9,000 for higher-cost courses¹¹ and £6,000 for other courses. Having suggested an average fee of around £6,600, officials considered the use of a £7,000 average fee for modelling purposes to be reasonable.
- 1.16** Where relevant to the different models, the Welsh Government adopted a prudent assumption that 100 per cent of all students eligible for financial support would take up the Tuition Fee Grant. For student loans, the Welsh Government assumed 90 per cent take-up across all of the different models based on historic trends. In our view, it would have been reasonable to have assumed some increase in the uptake of student loans for those options that would have seen students paying higher tuition fees without the additional cost being met fully by the Tuition Fee Grant.
- 1.17** HEFCW was not invited to corroborate or challenge the Welsh Government’s modelling or the underpinning assumptions. HEFCW officials told us that they believed that the assumption of a £7,000 average fee had been too optimistic, which has proven to be the case. HEFCW officials also questioned some of the assumptions on loan and grant take-up used initially by the Welsh Government. HEFCW considered that institutions were likely to pitch fees high if they could not rely on remaining HEFCW funding to make up any income gap caused, for example, by the draw on Tuition Fee Grant funding from institutions outside of Wales.
- 1.18** The Welsh Government’s chief economist reviewed the work that had been undertaken to arrive at the assumptions that underpinned the financial modelling, and considered the assumptions to be reasonable. Nevertheless, the chief economist, and other Welsh Government officials, acknowledged that the strength of the evidence for the different assumptions varied. However, apart from varying its assumptions about the average tuition fee likely to be charged by institutions, the Welsh Government did not produce equivalent models based on changes in other assumptions.
- 1.19** Welsh Government officials have emphasised to us that they had considered the affordability of the preferred policy option, and its effect on the income of higher education institutions in Wales, in the event of any substantial change in student numbers and cross-border flows. Nevertheless, in our view, the extent of the analysis carried out by the Welsh Government across all policy options, to assess the sensitivity of the modelling to changes in key variables that were subject to uncertainty, was insufficient. In particular, the Welsh Government had acknowledged at the time that there was considerable uncertainty about the impact on student numbers and cross-border flows of changing tuition fee policies and diverging student finance policies across the different parts of the UK. In that regard, it would have been reasonable to assume that the policy options the Welsh Government considered might have had different impacts on student numbers and flows.

¹¹ The highest-cost courses being clinical medicine and dentistry, veterinary science and courses in the next price bracket, mainly laboratory-based science and engineering.

Comparing the cost implications of the different policy options modelled by Welsh Government officials is not straightforward

1.20 The financial modelling undertaken by Welsh Government officials considered the cost of tuition fee loans, maintenance loans, the Tuition Fee Grant, and loan policy write-off charges for each policy option (Figure 3). However, it is not simply a case of totalling these costs to compare the overall cost of one option with another or with the baseline model. For example:

- a** while the cost of loan policy write-off charges was projected, so too was the full upfront cost of providing these loans;
- b** the introduction of the Tuition Fee Grant does not represent an additional cost if it is offset by reductions in HEFCW's teaching funding allocations¹²; and
- c** providing loans rather than the Tuition Fee Grant to cover the cost of higher tuition fees would have presented the Welsh Government with an opportunity to reduce its direct funding of higher education through HEFCW while leaving institutions no worse off.

1.21 In addition, the impact of the policy options on the different component costs included in the Welsh Government's modelling varied, with some options having more significant implications for the Welsh Government's main Departmental Expenditure Limit budget while others relied more heavily on the Annually Managed Expenditure budget and access to HM Treasury funding. Consequently, what may appear less costly from a Welsh Government budgetary perspective could be more costly from a UK-wide perspective.

¹² There is, however, a potential opportunity cost regarding HEFCW's ability to influence the delivery of Welsh Government policy objectives through its direct teaching funding.



Figure 3 – The cost implications of different student finance policy options for the period 2012-13 to 2016-17, as estimated by the Welsh Government in November 2010^{1, 2, 3}

	Baseline (£ million)	Option A (£ million)	Option B (£ million)	Option C - preferred (£ million)	Option D (£ million)	Option E (£ million)	Option F (£ million)
Costs covered within the Welsh Government's Departmental Expenditure Limit budget							
Tuition Fee Grant (via HEFCW allocation)	0	0	0	653	292	551	653
Tuition fee loan policy write-off charge	250	369	596	283	443	328	265
Maintenance loan policy write-off charge	235	288	318	266	295	278	249
Costs covered by HM Treasury as Annually Managed Expenditure							
Tuition fee loans	830	993	1,417	830	1,155	921	830
Maintenance loans ⁴	781	781	781	781	781	781	781

Notes

- 1 These figures are based on the assumed average fee of £7,000 across Wales, England and Northern Ireland in 2012/13, but with an assumed fee for Scottish institutions of £2,190.
- 2 All figures are in cash terms.
- 3 While the financial modelling projected these costs through to 2020-21, after 2016-17 the figures were simply uprated for inflation on a year-by-year basis, with student number forecasts left at 2016-17 levels.
- 4 There was no planned change to the provision of maintenance loans as a consequence of the policy options considered by the Welsh Government. The projected maintenance loan policy write-off cost did vary, to reflect different assumptions about the level of write-off of these loans if students had to take on additional tuition fee loans.

Source: Wales Audit Office review of Welsh Government financial modelling

The Welsh Government based its final policy decision on consideration of three different approaches to the introduction of the Tuition Fee Grant and the financial modelling that had assumed average fees of £7,000, although officials and certain Ministers had considered the equivalent modelling based on average fees of £9,000

1.22 In late September 2010, the Welsh Government's Cabinet considered a paper that set the scene for its policy response to the possible increase in tuition fees in England¹³. The paper noted that the underlying principles that had influenced Welsh Government policy on higher education funding and student support at that point in time were that:

- a** higher education should be free to all at the point of access – albeit underpinned by tuition fee loans;
- b** Welsh higher education institutions should not be disadvantaged in regard to fee income by comparison to other UK institutions; and
- c** no Welsh-domiciled student should be worse off than if subject to UK Government policy for higher education in England.

1.23 Raising tuition fees and extending access to tuition fee loans would have conformed to these principles. However, the Welsh Government was also concerned to protect Welsh students from higher levels of debt and the 'One Wales' agreement¹⁴ had committed the Welsh Government to seeking to mitigate the effects on Welsh-domiciled students if the UK Government announced the removal of the previous cap on fees. In effect, the introduction of the Tuition Fee Grant on a non means-tested basis offsets in full the effect on Welsh-domiciled students.

1.24 The Cabinet paper provided an early illustration of the costs to the Welsh Government that could result from an increase in tuition fees in England, with or without an equivalent increase in Wales, which assumed extended access to tuition fee loans. The paper also explored some of the advantages and disadvantages of these two scenarios – Options A and B in the financial modelling – drawing on some of the issues explored in the meeting between HEFCW and Welsh Government officials in early September 2010.

1.25 Welsh Government officials from the higher education division have told us that it was during October 2010 and with input from ministers' special advisers that the options associated with the introduction of the Tuition Fee Grant emerged from the Cabinet. Officials from the higher education division were not party to all of those discussions and the Cabinet did not consider any further financial analysis at that stage.

1.26 In mid-November 2010, the Cabinet considered a paper that described four policy options (Options A, C, D and E). No further consideration was given to Option B and, despite featuring in the analysis undertaken by officials, nor was any consideration given by Cabinet to the financial analysis for Option F. Welsh Government officials have told us that the then Minister for Education, Children and Lifelong Learning had ruled out Option F because the previous introduction of the partial cancellation of maintenance loans was part of the wider political agreement to the implementation of various other changes in student finance arrangements in 2010/11.

¹³ The Cabinet's consideration of this paper is not reflected in the published Cabinet agenda or minute for the meeting held on 27 September 2010 because this was deemed to be restricted as the Welsh Government did not want to pre-empt the outcomes of the 'Browne Review' and the UK Government's response to it.

¹⁴ Welsh Government, *One Wales - A progressive agenda for the government of Wales*, June 2007. The 'One Wales' agreement was the coalition agreement between the Labour Party and Plaid Cymru.



1.27 While it featured in the mid-November 2010 paper, Option A was described as not being viable, reflecting concerns about its impact on Welsh Government budgets while leaving higher education institutions disadvantaged with regard to fee income and with Welsh students studying outside Wales still exposed to higher student loan debt. In a subsequent paper, which informed the final policy decision, the Cabinet was presented with details of the financial modelling for Options C, D and E, based on the assumption of a £7,000 average fee in 2012/13. The Cabinet paper emphasised the risks and uncertainties inherent in its forecasts, including in respect of student numbers and cross-border flows¹⁵, but it did not present the results of any sensitivity analysis, including the results of the modelling that assumed all institutions would, where able, charge the maximum £9,000 fee in 2012/13. However, the analysis based on an average £9,000 fee had been shared with the then Minister for Education, Children and Lifelong Learning and Welsh Government officials told us that it had also been shared with and discussed by certain other Cabinet members.

1.28 The decision to proceed with Option C reflected advice from officials that this was an affordable and sustainable solution and the only approach that would protect all Welsh-domiciled students from higher levels of debt, thereby fully discharging the 'One Wales' commitment. The advice also noted that Welsh students wanting to study subjects that were not available in Wales would not be disadvantaged. The Welsh Government has since estimated that, by 2016-17, the

combined effect of the partial cancellation of maintenance loans and the introduction of the Tuition Fee Grant will mean that the average outstanding debt of Welsh-domiciled students excluding interest charged will be nearly half that of English-domiciled students.

1.29 The Welsh Government's modelling under Option C of higher education sector income forecast growth in cash terms from £1.18 billion in 2011-12 to £1.35 billion in 2016-17¹⁶. Income in 2016-17 in real terms was expected to be broadly equivalent to that in 2011-12 after recovering from a fall of just under £30 million between 2011-12 and 2012-13¹⁷. Underpinning these projections, and based on the assumption of an average tuition fee of £7,000, the Welsh Government had estimated that, from 2012-13 to 2016-17, the higher education sector in Wales stood to lose £185 million to institutions outside Wales through the payment of Tuition Fee Grant. However, this loss would be more than offset by the Welsh Government's estimate that Welsh institutions would gain £304 million by charging £7,000 fees to students from England studying in Wales¹⁸.

1.30 The Welsh Government consulted on its proposals in early 2011¹⁹, focusing on the practical delivery of the approach outlined in November 2010 rather than the underlying principles. One of the issues of concern raised during the consultation related to the Welsh Government's assessment that the higher education sector would be no worse off in real terms in 2016-17, compared with 2012-13. Stakeholders were keen to understand the basis of that assertion and Welsh Government

¹⁵ The paper also noted that, for those options involving means testing of the Tuition Fee Grant, the means testing thresholds and tapering would, if preferred, have needed further consideration.

¹⁶ Welsh Government (written statement), *The Forecast for Income to the Higher Education Sector in Wales from 2011 – 2012 until 2016 – 2017*, December 2010

¹⁷ The Welsh Government published updated cash terms figures in its June 2013 *Policy Statement on Higher Education*. These, and the related real terms figures we have seen, reinforce the expectations set out by the Welsh Government in December 2010, with a slight increase in cash and real terms income overall when compared with the original estimates, although this is due mainly to an increase in estimates of income from sources unrelated to full-time undergraduate teaching.

¹⁸ The Welsh Government analysis based on the maximum fee of £9,000 across English and Welsh institutions estimated that the cost of Tuition Fee Grant for students studying outside of Wales would total £289.4 million between 2012-13 and 2016-17 but with Welsh institutions gaining £476.5 million by charging £9,000 fees to English-domiciled students.

¹⁹ Welsh Government, *Consultation Document – Higher education funding and student finance 2012/13*, January 2011

officials clarified that the analysis was undertaken at a sector-wide level rather than considering, in detail, the potential impact on individual institutions.

Aspects of the Welsh Government's appraisal of policy options did not conform to best practice

- 1.31** The Welsh Government cannot demonstrate that its appraisal of its policy options in late 2010 conformed in all respects to the best practice principles set out in HM Treasury's Green Book²⁰, which provides advice on the appraisal of policies, programmes or projects. In part, this may have been a consequence of the Welsh Government deciding that it needed to respond quickly to the UK Government's announcement on the introduction of higher tuition fees in England.
- 1.32** While it emphasises the need for proportionality, the Green Book refers to the need for government departments to appraise both the costs and benefits of different policy options to deliver a particular objective, including valuing both the costs and benefits where possible. The Green Book also emphasises that departments should consider how the option appraisal process fits in with their own governance arrangements and how particular options impact on any wider strategic objectives.
- 1.33** In advance of its November 2010 policy announcement, the Welsh Government had given some consideration to the wider impact of its policy on HEFCW, on the higher education sector as a whole and on students (including from an equality impact assessment perspective²¹). However, officials acknowledged that these issues required further consideration and, overall, the Welsh Government had not clearly set out and appraised on a systematic basis the full range of costs, including any differences in administrative costs, and benefits of the different policy options it had identified. Nor had the Welsh Government sought to put a value on benefits in all cases where it might have been possible to do so, such as the longer-term economic impact of different levels of student debt.
- 1.34** Also, while Cabinet papers recognised the inherent uncertainties in some of the underpinning assumptions, the sensitivity analysis undertaken by the Welsh Government across the different policy options extended only to comparison of the £7,000 and £9,000 average fee models. The Green Book notes that there may be exceptional situations when sensitivity analysis is dispensed with. Although timing constraints might have been a factor, in our view, the Welsh Government could have given earlier consideration to its response to any proposal to raise tuition fees in England following the launch of the 'Browne Review' in November 2009. In addition, the Welsh Government's policy decision was not subject to formal policy review processes that were in place at that time to ensure its alignment with wider strategic objectives, including the overall contribution to sustainable development.
- 1.35** The Welsh Government summarised its assessment of the impact of its policy decision in the explanatory memorandum that accompanied the regulations that it developed in early 2011 to support implementation of the policy²². That explanatory memorandum focused on a comparison between the Welsh Government's proposals, the 'do nothing' option, and the option of mirroring the UK Government's policy for higher education in

20 HM Treasury, *The Green Book, Appraisal and Evaluation in Central Government*, 2003

21 The Welsh Government's analysis focused on six of the nine 'protected characteristics' under the Equality Act 2010: age, disability, race, gender, religion and belief, and sexual orientation. For example, the Welsh Government identified that, given the lack of access in Wales to certain subjects in which female students predominate (such as veterinary medicine), providing support to all Welsh-domiciled students irrespective of their location of study might contribute positively to gender equality.

22 Welsh Government, *The Student Fees (Amounts) (Wales) Regulations 2011 – Explanatory Memorandum*, February 2011. The same explanatory memorandum supported a wider suite of regulations that the Welsh Government introduced to underpin its tuition fees policy from 2012/13.



England. The explanatory memorandum did not compare the different approaches to the introduction of Tuition Fee Grant, which had been the focus of the Welsh Government's final policy decision in November 2010.

The cost of the Tuition Fee Grant for 2012-13 to 2016-17 is now expected to be substantially higher than forecast in November 2010, but the estimated cost of issuing student loans is unchanged and estimated loan policy write-off charges have reduced

Welsh Government officials have been updating their modelling to reflect changes in the underpinning assumptions, including the knowledge that institutions are charging higher fees than the Welsh Government had expected

- 1.36** The Welsh Government has been updating its modelling over the period since late 2010 to reflect emerging trends and changes in its underlying assumptions. These changes include general updates to inflation and interest rates, to the student loan repayment model and to the maximum value of certain financial support. For example, the Welsh Government has decided to increase the value of maintenance loans for 2013/14 and 2014/15 by an amount larger than inflation.
- 1.37** Although the November 2010 modelling was based on average tuition fees of £7,000 a year, during 2011 and 2012, the Welsh Government applied to its modelling a blanket fee rate of £9,000 across the UK for

2012/13, updated in subsequent years for inflation. Based on emerging evidence, and with input from HEFCW, in February 2013 the model was adjusted again to reflect revised assumptions about average fees across different parts of the UK (Figure 4).

- 1.38** The Welsh Government has also changed its assumptions about the number of students potentially eligible for financial support (Figure 5). Within these figures there has been a reduction in the proportion of students who the Welsh Government has assumed will receive financial support from individual institutions in the form of a lower tuition fee. Where institutions charge lower fees to these students, this then reduces the amount of Tuition Fee Grant needing to be paid, with the Welsh Government assuming a 50 per cent reduction. For 2016/17, the Welsh Government's November 2010 model estimated that this reduction would apply to 5.7 per cent of students eligible for the Tuition Fee Grant, compared with an estimated 1.6 per cent in the February 2013 model.
- 1.39** Some institutions have made it clear that Welsh-domiciled students will not qualify for certain financial support because the Welsh Government is providing the Tuition Fee Grant. It is possible, therefore, that some Welsh-domiciled students might now find themselves worse off than if they had entered higher education before the introduction of higher tuition fees and the Tuition Fee Grant. Welsh Government officials have emphasised to us that neither they nor HEFCW have any influence over the financial support offered by institutions outside of Wales. However, the tuition fee planning arrangement that HEFCW oversees in Wales could, potentially, be used to influence the practice of Welsh institutions.

Figure 4 – Tuition fee assumptions in the Welsh Government’s modelling of Tuition Fee Grant costs, as at February 2013¹

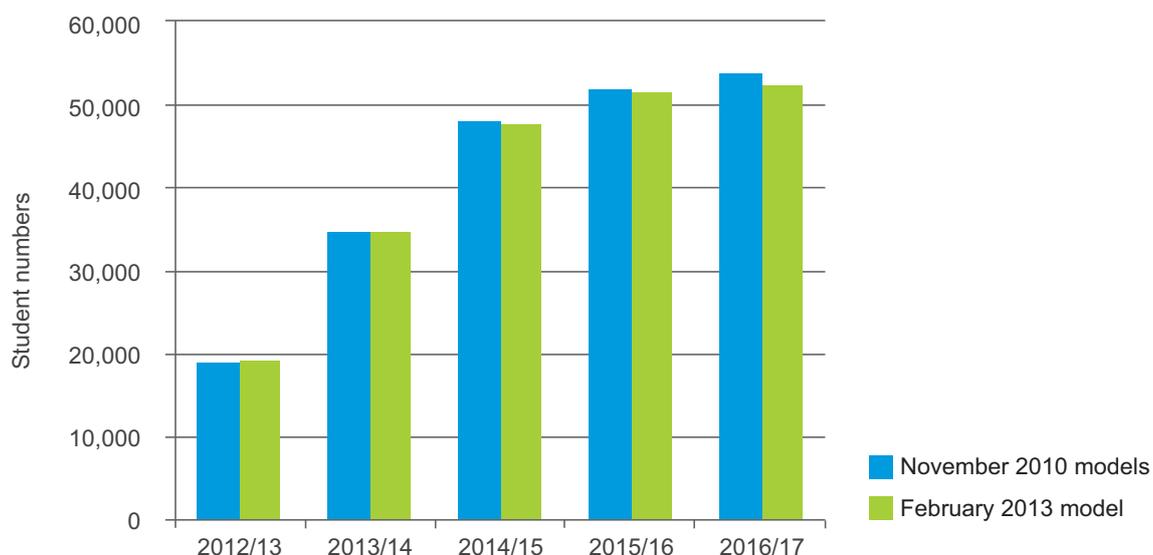
Location of higher education institution	Average tuition fee for 2012/13 entry	Average tuition fee for 2013/14 entry ²
Wales ³	£8,680	£8,291
England ⁴	£8,385	£8,507
Scotland and Northern Ireland ⁵	£9,000	£9,000

Notes

- 1 All fees exclude bursaries or other fee waivers that may be offered to students by individual institutions and which would reduce the value of the Tuition Fee Grant needing to be paid.
- 2 For its February 2013 model, the Welsh Government assumed that average fees at Welsh institutions for 2014/15 and 2015/16 entry would remain at 2013/14 levels, with inflation applied thereafter. The Welsh Government has indicated that the maximum fee in Wales will be frozen at £9,000 until the end of 2015/16. There are different assumptions relating to future fees for Welsh-domiciled students in England, Scotland and Northern Ireland beyond 2013/14.
- 3 Figures for Welsh institutions are based on average figures supplied to the Welsh Government by HEFCW based on approved fee plans.
- 4 Figures for English institutions are based on data from the Office for Fair Access (OFFA), Access Agreements 2012-13: Final data including initial teacher training, July 2012.
- 5 While Scottish and Northern Irish institutions may charge less than £9,000, the Welsh Government assumed the maximum £9,000 fee across Scottish and Northern Irish institutions. The small number of Welsh students at these institutions means that any changes in these assumptions would have a marginal impact on the Welsh Government’s overall cost estimates.

Source: Wales Audit Office review of Welsh Government financial modelling

Figure 5 – Welsh Government projections of the number of Welsh and EU-domiciled students eligible for financial support from 2012/13 to 2016/17, as at November 2010 and February 2013¹



Note

- 1 The rate of increase in student numbers between 2012/13 and 2014/15 in particular reflects the rollout of the current tuition fee loan and Tuition Fee Grant arrangements as students who entered higher education before 2012/13 leave the system. The Welsh Government projected a small reduction in the overall numbers of students entering higher education in 2012/13 compared with 2011/12, but with numbers recovering in subsequent years.

Source: Wales Audit Office review of Welsh Government financial modelling

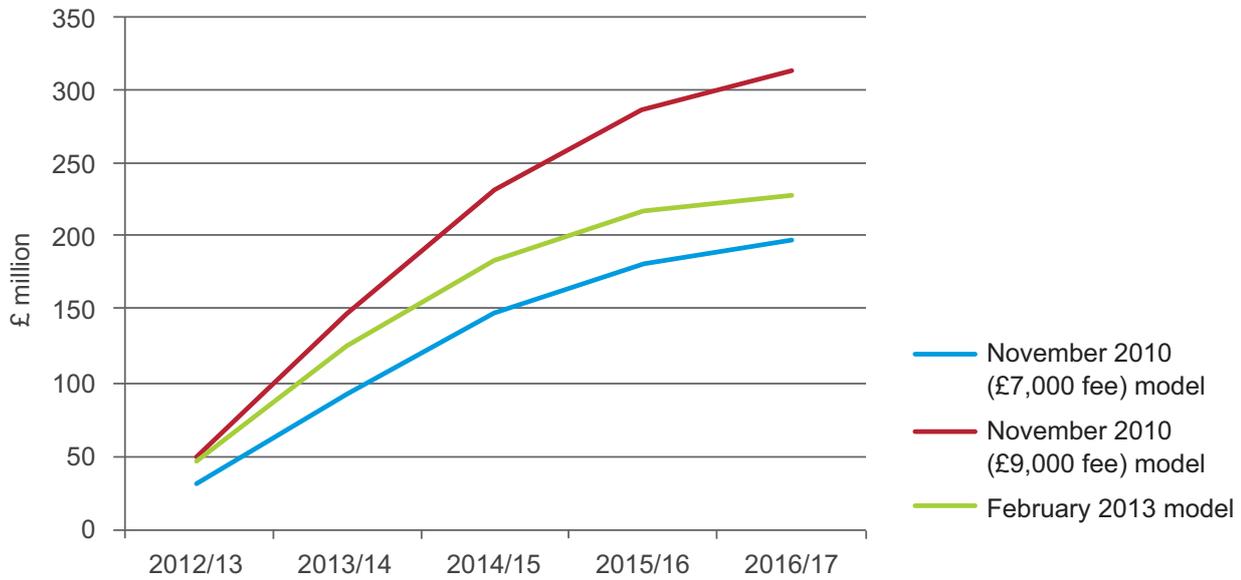


- 1.40** The Welsh Government is now working to an assumption that only 98 per cent of students eligible to receive financial support will claim the Tuition Fee Grant, compared with the 100 per cent assumption in its November 2010 model. Student Loans Company data indicated that 95 per cent of students entering the student finance system had taken up the Tuition Fee Grant. In addition, the Welsh Government has compared Welsh institutions' provisional enrolment data and Student Loans Company data and found that this suggested that 95 per cent of Welsh and EU-domiciled students had claimed the Tuition Fee Grant.
- 1.41** At least in part, this analysis of the uptake of the Tuition Fee Grant reflects the fact that the Tuition Fee Grant is not available to students who already have a degree. These students can still access other financial support. However, it is possible that some students lack an awareness of the loan and grant support on offer or, for other reasons, do not enter the student finance system. There may also be discrepancies between the records of students' domicile when comparing the Student Loans Company data and institutions' enrolment data.
- 1.42** Finally, the Welsh Government has decided to reduce all of its estimates of the cost of student support by five per cent. The Welsh Government has applied this correction to reflect evidence relating to the accuracy of historic forecasts.

The cost of the Tuition Fee Grant over the period 2012-13 to 2016-17 is now expected to be £809 million compared with the original forecast of £653 million

- 1.43** The Welsh Government's original modelling, based on its assumptions at the time that included a £7,000 average fee for 2012/13, put the total estimated cost of Tuition Fee Grant at £653.3 million over the five-year period from 2012-13 to 2016-17. The updated modelling in February 2013 puts this cost at £809.1 million, an increase of 24 per cent. However, the February 2013 estimate is substantially lower than the maximum cost (£1.02 billion over the period) modelled in 2010 based on a £9,000 average fee for 2012/13 (Figure 6).
- 1.44** The increased estimated cost of the Tuition Fee Grant reflects the changes in the Welsh Government's assumptions about average tuition fees in 2012/13 and subsequent years and, to a lesser extent the changing assumptions about student numbers. These changes have been offset to some extent by the changes the Welsh Government has made to the estimated uptake of Tuition Fee Grant and then the overall five per cent reduction that it has applied to its estimates. However, we note that HEFCW has reported Tuition Fee Grant expenditure of £48.1 million in its 2012-13 financial statements, compared with the Welsh Government's February 2013 estimate that the Tuition Fee Grant would cost £47.2 million.

Figure 6 – Welsh Government forecasts for the costs of the Tuition Fee Grant from 2012-13 to 2016-17, as at November 2010 and February 2013¹



Note

¹ All figures are in cash terms.

Source: Wales Audit Office review of Welsh Government financial modelling



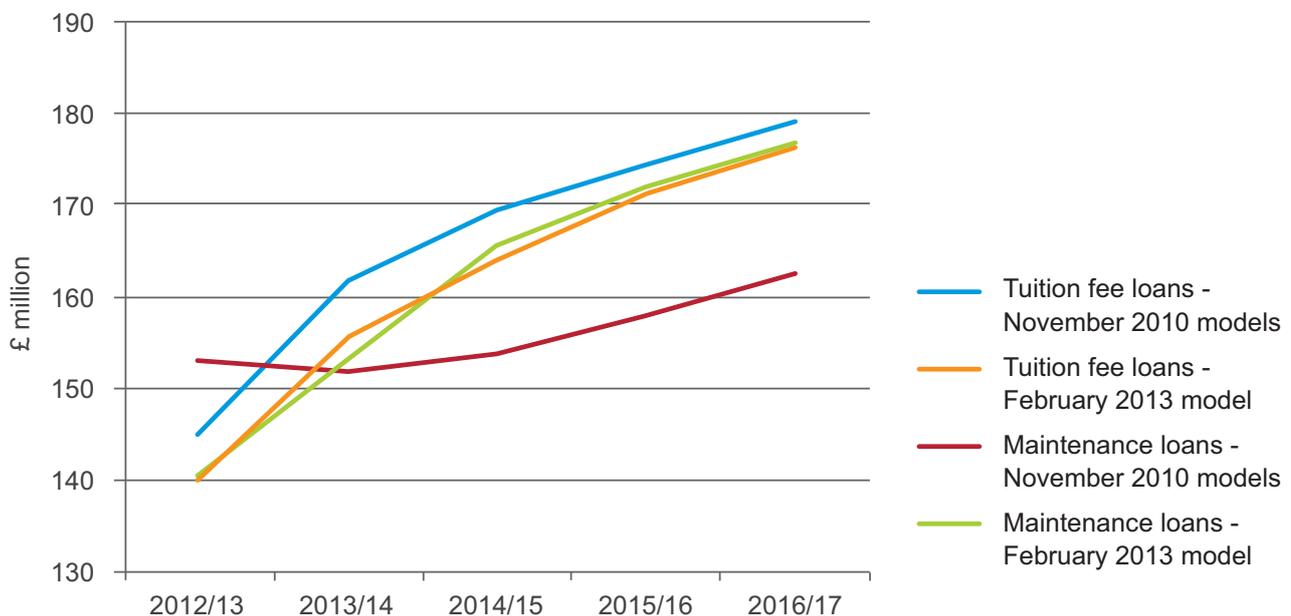
The estimated cost of issuing student loans over the period 2012-13 to 2016-17 remains unchanged at just over £1.6 billion and, although subject to change, loan policy write-off charges are currently expected to be £476 million compared with an original forecast of £549 million

1.45 The Welsh Government’s original modelling put the total estimated cost of issuing student loans at £1.611 billion over the five-year period from 2012-13 to 2016-17. The updated modelling in February 2013 produced a very similar figure of £1.616 billion (Figure 7). The estimated cost of issuing tuition fee loans has fallen from the original estimate of £830.4 million to £807.9 million, a decrease of around

three per cent. The estimated cost of issuing maintenance loans has increased from the original estimate of £781.1 million to £808.1 million, an increase of around three per cent.

1.46 Student Loans Company data published in June 2013 confirmed tuition fee loan payments worth £143.8 million in 2012-13, of which £4.4 million (around three per cent) was for EU-domiciled students studying in Wales²³. The same source confirmed maintenance loan payments worth £143.3 million in 2012-13. These figures compared with estimated costs of £139.8 million (tuition fee loans) and £140.3 million (maintenance loans) for 2012-13 in the Welsh Government’s February 2013 modelling.

Figure 7 – Welsh Government forecasts for the costs of issuing tuition fee and maintenance loans from 2012-13 to 2016-17, as at November 2010 and February 2013^{1,2}



Notes

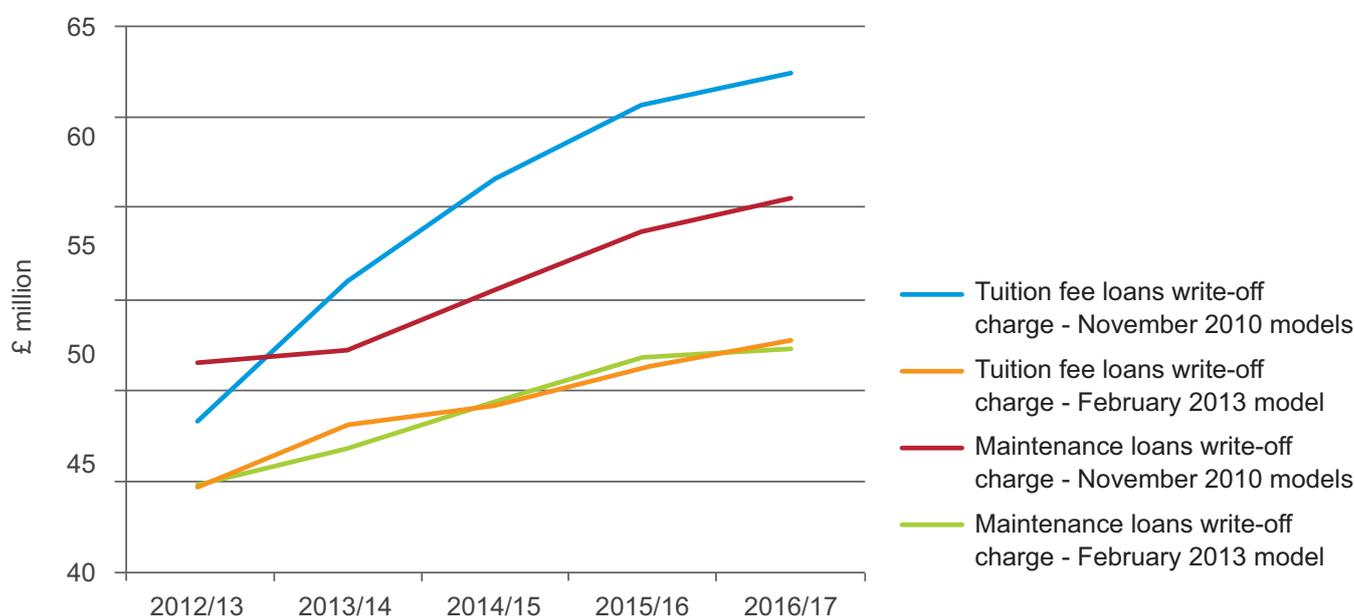
- 1 This analysis, and the Welsh Government’s modelling, does not take into account income from repayments to off-set student loan payments.
- 2 All figures are in cash terms.

Source: Wales Audit Office review of Welsh Government financial modelling

²³ Student Loans Company, *Statistical First Release – Student loans for higher education in Wales, financial year 2012-13*, June 2013.

1.47 The Welsh Government's original modelling put the total estimated cost of loan policy write-off charges at £548.8 million over the five-year period from 2012-13 to 2016-17. The updated modelling in February 2013 puts this cost at £475.9 million, a decrease of around 13 per cent. The total estimated charge is split equally between tuition fee and maintenance loans. However, the Welsh Government expects that planned changes in the way this cost is estimated will reverse some of this reduction. The estimated write-off charges for maintenance loans have not reduced as much as for tuition fee loans, reflecting the different projected trends in the cost of issuing these loans (Figure 8).

Figure 8 – Welsh Government forecasts for the costs of tuition fee loan and maintenance loan policy write-off charges from 2012-13 to 2016-17, as at November 2010 and February 2013^{1,2}



Notes

1 The Welsh Government is in the process of changing its approach to the statistical modelling of loan policy write-off charges for 2013-14 onwards. The Welsh Government believes that the new approach it is adopting is likely to increase these annual charges by around five per cent on a like-for-like basis.

2 All figures are in cash terms.

Source: Wales Audit Office review of Welsh Government financial modelling



Part 2 – Overall, the Welsh Government and HEFCW have implemented the new tuition fees policy effectively but a number of issues are still to be resolved

- 2.1** This part of our report focuses on the way in which the Welsh Government and HEFCW have managed the introduction of higher tuition fees and the Tuition Fee Grant. It also addresses some related issues in respect of the student finance system and higher education funding and regulation.
- 2.2** For the Welsh Government, we have considered:
- a** project management and stakeholder engagement;
 - b** management of the costs of the tuition fees policy;
 - c** tuition fees policy considerations for part-time students;
 - d** local authority managed arrangements for processing student finance applications and plans for the centralisation of that service with the Student Loans Company; and
 - e** proposed changes to the higher education regulatory framework.
- 2.3** For HEFCW, we have considered:
- a** changes to the way in which HEFCW distributes funding to the higher education sector;
 - b** the tuition fee planning process; and
 - c** the way in which HEFCW monitors higher education institutions' financial sustainability, governance and performance.

The Welsh Government has overseen the work required to implement current tuition fees policy effectively to date, but further action is needed on part-time tuition fees, to address weaknesses in processing student finance applications, and on the role of HEFCW

The Welsh Government delivered to time the changes needed to support the introduction of higher tuition fees and the Tuition Fee Grant in 2012/13 and, more broadly, has strengthened the framework within which its higher education programme is implemented

- 2.4** The Welsh Government recognised at the outset that the timetable to deliver the changes necessary to introduce higher tuition fees and the Tuition Fee Grant from 2012/13 was challenging. The Welsh Government delivered much of the work that was needed itself, such as further consultation, the development of supporting regulations and relevant guidance and oversaw preparatory work carried out by other organisations, including HEFCW, the Student Loans Company and local authorities. We found no evidence of any significant problems arising from the changes, for example regarding the flow of funding around the system.

2.5 Work undertaken by the Welsh Government's Internal Audit Services and an internal 'Gateway Review'²⁴ of the way in which the Welsh Government was taking forward the implementation of the planned changes in higher education funding and student finance for 2012/13 has encouraged the clear articulation of key risks and mitigating measures, and promoted a focus on benefits realisation. The Gateway Review, undertaken in October 2011, also highlighted the opportunity to bring further structure to the Welsh Government's programme and project management. Overall, the Welsh Government has responded positively to the recommendations by the reviews.

2.6 During 2012, the Welsh Government initiated an overarching 'Higher Education Delivery Programme' (Box 2). Among other things, the programme aims to achieve greater alignment between Welsh Government policies that impact on higher education, and to promote a simpler and more consistent interface between the Welsh Government and higher education stakeholders.

Box 2 – The Welsh Government's 'Higher Education Delivery Programme'

The programme board includes representation from the Welsh Government's higher education division and from other parts of the Department for Education and Skills and from the Department for Enterprise, Science and Technology. External organisations represented include HEFCW, the Student Loans Company, Higher Education Wales, the Welsh Local Government Association and the National Union of Students Wales.

The programme comprises of three main supporting projects, which cover some interrelated themes and build on work that pre-dates the creation of the programme:

- *Higher education policy and legislation project:* in the short-term, this work is principally concerned with:
 - developing the Higher Education (Wales) Bill, through which the Welsh Government intends to introduce a revised higher education regulatory framework; and
 - taking forward other work arising from the Welsh Government's June 2013 Policy Statement on Higher Education.
- *Higher education funding and student finance project:* this project is charged with taking a holistic view on all areas of higher education and further education finance and funding, to ensure that student finance supports the Welsh Government's objectives to widen participation in further and higher education and represents value for money.
- *Modernisation of Student Finance Wales project:* this project is concerned with managing the transition to a Student Loans Company centralised system for processing student finance applications, and away from the current local authority managed arrangements.

²⁴ The Gateway Review process has been developed by the Office of Government Commerce and is based around short and focused peer review at key stages of a project or programme.



The Welsh Government has monitored closely forecast student finance income and expenditure and the associated risks, which include changes to the way in which student loan policy write-off charges are calculated

- 2.7** The Welsh Government's 'Student Support Forecasting User Group' brings together Welsh Government officials from various departments and, since October 2012, has included representation from HEFCW's Head of Statistics. Through this group, the Welsh Government has monitored closely forecast student finance income and expenditure, with updated modelling being produced at various stages since mid-2011. Issues arising from the work of this group are escalated for discussion at the Higher Education and Student Finance Project Board.
- 2.8** Recently, the Welsh Government's Internal Audit Services reported positively on the Welsh Government's controls over student finance, including the work of the Student Support Forecasting User Group. The internal auditors recognised the 'volatility of the student finance budget and the complexity of relationships between the organisations involved in delivering proper accountability'. In these circumstances, the internal auditors were satisfied with the action that the Welsh Government has been taking to predict and control expenditure and income. However, the internal audit report noted that the Welsh Government could articulate better the work in hand to manage student finance related risks as part of its wider risk management arrangements.
- 2.9** The internal audit report also noted that the Welsh Government's forecasts rely on information received from the UK Government and from various other organisations, including the Student Loans Company. In 2012-13, there were problems forecasting the amount and timing of the amounts of

student loan repayments that were to be received by the Welsh Government. These problems, combined with the fact that Student Loans Company information is not available at key points in the Welsh Government's budgeting timeline, meant that the Welsh Government significantly underestimated the amount of 'Annually Managed Expenditure' cover required from HM Treasury to fund student loans in the final quarter of 2012-13. The report urged the Welsh Government to make further attempts to influence delivery partners to make up-to-date forecasting data available in a timely fashion to help the Welsh Government meet HM Treasury deadlines and, if unsuccessful, to seek to negotiate with HM Treasury some flexibility in their deadlines.

- 2.10** An area of significant risk concerns the statistical modelling to calculate the value of the annual loan policy write-off charge. The Welsh Government has been using a 'Student Loan Repayment Model' which, until 2011-12, was used across the UK and maintained by the UK Government Department for Business, Innovation and Skills, but adjusted by the Welsh Government to take account of its specific student finance policies.
- 2.11** For 2011-12, the rest of the UK moved to a new 'HERO' model developed on behalf of the Department for Business, Innovation and Skills. The Welsh Government delayed any change because it was unable to get any clear explanation of the reason why the new model produced significantly higher than anticipated loan policy write-off charges. The Welsh Government was also unable to explain the value of the additional one-off 'stock-charge' that would be applied in moving to the new model, to reflect changes in the way the Welsh Government would need to account for student loans. The value of this stock-charge was estimated previously at around £280 million but is now expected to be in the region of £326 million.

- 2.12** The Welsh Government continued using the Student Loan Repayment Model in 2012-13, but the Department for Business, Innovation and Skills decided that it would not maintain the model beyond then. The Welsh Government has therefore had to consider its options and, in the meantime, wider concerns have emerged about the robustness of the HERO model developed by the Department for Business, Innovation and Skills. The Department commissioned additional consultancy work to review the model and to propose developments to the model or a revised approach. The Department has now decided to take development of the model in-house. The National Audit Office is currently considering the Department's approach to modelling future repayments as part of an examination of student loan repayments covering the English loan book, with a report due for publication later in 2013.
- 2.13** In September 2013, the Welsh Government decided that, despite concerns about its robustness, it would now adopt the HERO model. This decision was based on an assessment of the advantages and disadvantages of this approach when compared with:
- a** continuing to use the Student Loan Repayment Model, which is now based on out-of-date information and would need updating and maintaining by the Welsh Government itself to reflect revised loan repayment arrangements; and
 - b** developing an alternative model for Wales, independent of the UK Government and the other devolved administrations.
- 2.14** The Welsh Government is discussing with HM Treasury additional funding cover for the £326 million stock-charge. HM Treasury covered the equivalent charge for the Scottish Government and Northern Ireland Executive when they adopted the HERO model. In addition, the Welsh Government expects that the new model will increase the annual loan policy write-off charge, potentially by around five per cent.
- 2.15** The Welsh Government has recognised that the model it is adopting is flawed, the basis of the model's results for Wales is unclear, and the model is subject to further change. Nevertheless, the Welsh Government considers that the best way forward is to work with the Department for Business, Innovation and Skills, and the other devolved nations, to influence the development of the model that they are currently using. However, there is, as yet, no agreement on the inclusion of any of the devolved administrations in the further development of the model.
- 2.16** The alternative options that the Welsh Government has considered would present additional staffing and/or consultancy costs. In addition, the Welsh Government has identified that it would still need to apply a one-off stock-charge to its accounts. Whether that charge would be higher or lower than the charge arising from moving to the system currently in use in other parts of the UK is not clear. The Welsh Government believes that if it did not decide to adopt the system in use elsewhere in the UK, HM Treasury would be less likely to cover the stock-charge.



Planned changes to tuition fee and finance support arrangements for part-time students have not progressed as the Welsh Government had intended, although decisions to put these changes on hold have been supported by key stakeholders

2.17 As part of its November 2010 policy announcement on tuition fees for full-time undergraduates, the Welsh Government announced plans to provide access to loans to help part-time students meet the cost of increased tuition fees, adding to a pre-existing suite of means-tested grants and other allowances²⁵. From the start of 2012/13, the UK Government implemented higher tuition fees up to £6,750²⁶ for part-time students with access to related tuition fee loans.

2.18 In June 2011, the Welsh Government announced a proposal for part-time students to mirror the system for full-time students, but with a maximum fee of £7,000 pro rata. At that time, the Welsh Government estimated that the cost of the Tuition Fee Grant for part-time students would be £6.8 million in 2012-13, rising to £23.9 million by 2015-16. The cost of providing tuition fee loans was projected to increase from £6.7 million in 2012-13 to £23.5 million in 2015-16 and the loan policy write-off charge was expected to be £4.3 million in 2012-13, rising to £15.3 million in 2015-16.

2.19 Further consultation on these proposals identified concerns about:

a whether potential students would be put off part-time study because of the higher fees, despite the availability of the Tuition Fee Grant;

- b** the impact on students falling outside of the eligibility criteria for student support, for example postgraduates and those studying under 25 per cent intensity courses;
- c** the need to better consider the role of employers within the part-time sector and the impact of part-time study on employability and reskilling; and
- d** the communication strategy ahead of any changes being introduced.

2.20 In November 2011, the Welsh Government announced a delay to the implementation of changes to part-time fees and student support until 2013/14. Then, in December 2012, the Welsh Government put any substantive changes on hold in light of emerging evidence about the impact of higher fees on the part-time intake in England and concerns that any changes in Wales could destabilise the part-time market in Wales.

2.21 In March 2013, the Higher Education Funding Council for England (HEFCE) published a report which pointed to a 40 per cent reduction in the number of people beginning part-time undergraduate courses in England between 2010/11 and 2012/13. Around three-quarters of this reduction was between 2011/12 and 2012/13²⁷. The overall number of students undertaking part-time higher education in Welsh institutions had already fallen by 10 per cent, from 54,714 to 49,136, between 2008/09 and 2011/12. HEFCW had set a target for an increase in part-time student numbers to 59,000 by 2012/13 (Appendix 4). The figures for Wales include the Open University in Wales which, over the same period and in contrast to the sector-wide trend, saw its part-time student numbers increase by 16 per cent from 7,689 to 8,938.

²⁵ The available part-time support consisted of: a means-tested course (maintenance) grant and a non means-tested disabled students' allowance for 25 per cent intensity courses and above; and a means-tested fee grant, adult dependents' grant, childcare grant and parents learning allowance for 50 per cent intensity courses and above. These applied to Welsh-domiciled students studying in Wales. Welsh-domiciled students studying outside Wales were not eligible for support although it could be awarded discretionally by each local authority.

²⁶ This represents the maximum tuition fee of £9,000 pro-rated for 75 per cent study intensity.

²⁷ HEFCE, *Higher education in England: Impact of the 2012 reforms*, March 2013

2.22 In March 2013, the Welsh Government announced a revised proposal for part-time support for students starting courses in 2014/15, which included:

- a** non means-tested tuition fee loans of up to £2,625 for Welsh-domiciled and EU students studying on designated courses at Welsh public or private institutions;
- b** non means-tested tuition fee loans of up to £6,750 for Welsh-domiciled students studying part-time in England;
- c** period of eligibility for support to be extended to allow courses to be completed over a longer period (up to eight years);
- d** existing system of maintenance support to remain in place for continuing students; and
- e** in line with previous years, Disabled Students' Allowance available for 25 per cent intensity courses and above, and all other allowances available for 50 per cent intensity courses and above.

2.23 The Welsh Government has estimated that the additional costs of this package of support between 2014-15 and 2016-17, compared with the current arrangements, will be:

- a** tuition fee loan costs of £26.3 million (rising from £3.9 million in 2014-15 to £12.5 million in 2016-17; and
- b** tuition fee loan policy write-off charges of £17.0 million (rising from £2.5 million in 2014-15 to £8.1 million in 2016-17.

2.24 Currently, the part-time tuition fees charged by higher education institutions are not regulated. The Welsh Government has indicated that it will provide HEFCW with additional funding to help support higher education institutions' part-time provision, which would enable fees to remain at the current levels, and institutions have indicated that they would not increase fees if this was the case²⁸. Therefore, the Welsh Government considers that the administrative burden of a fully regulated part-time system would be unnecessary at present. However, the full details of this additional funding are not yet confirmed.

2.25 The decisions to defer changes to part-time tuition fee and student finance arrangements have had the support of key stakeholders, but a longer-term solution needs to be reached to provide greater certainty across the part-time market and to give further consideration to the question of parity in the arrangements across full-time and part-time study. The Welsh Government is keeping the situation under review, in the context of the development of the Higher Education (Wales) Bill. In April 2013, the National Union of Students Wales and the Open University in Wales jointly launched a wide-ranging study into the experiences, impact and challenges of part-time study in Wales which should help to inform that thinking.

²⁸ Students studying courses at private institutions generally pay higher fees. Therefore while students will continue to have access to the same support as detailed above for designated courses, they are likely to have to fund part of the fee themselves.



The Welsh Government's proposals to centralise the student finance system through the Student Loans Company need to address weaknesses in the current local authority managed arrangements and increased risks arising from the new tuition fees policy

Plans to centralise the system in Wales were put on hold because of problems experienced in England

2.26 In June 2010, the Welsh Government set out its commitment to the principle of centralising the processing of student finance applications and eligibility assessments, for both loan and grant support, through the Student Loans Company. This service is currently undertaken by individual local authorities.

2.27 The proposed changes are intended to deliver an improved, more efficient and sustainable student finance system in Wales and follow similar changes in England. The Student Loans Company began processing loan and grant applications for new students in England for 2009/10. However, in March 2010, the National Audit Office reported major problems with the new system²⁹. Because of the problems experienced in England, the Welsh Government deferred a final decision on the proposed move to a centralised system in Wales until the Student Loans Company had successfully implemented a full three-year student cycle (2010/11 to 2012/13).

The Welsh Government expects that the Student Loans Company will process all student finance applications for Welsh-domiciled students starting their courses in 2014/15, and then for new and returning students from 2015/16

2.28 In July 2013, the Student Loans Company provided the Welsh Government with an updated business case for the transition to a centralised Student Finance Wales service³⁰. Following a pilot transition exercise in autumn 2013 with Wrexham County Borough Council, the business case proposes a phased transition:

- a** 2014/15: The Student Loans Company will process student finance applications for new students. Local authorities will continue to process applications for returning students. The Student Loans Company expects to launch the new service during February 2014.
- b** 2015/16: The Student Loans Company will process student finance applications for new and returning students, commencing in around February 2015. Local authorities will transfer all customer files and data to the Student Loans Company by the end of March 2015. Welsh Government funding for local authority service provision (£2.5 million annual revenue grant support) will be discontinued at that point.

²⁹ National Audit Office, *The Customer First Programme: Delivery of student finance*, March 2010. The report identified weaknesses in oversight of the programme by the UK Government and Student Loans Company, problems with the communication with applicants and other key stakeholders and in the implementation of a new document scanning system and, ultimately, poor customer experience including particular problems affecting applications for disabled students' allowances.

³⁰ The centralised Student Loans Company service will be based in North Wales, although some functions will be handled outside Wales. The service will operate out of the Welsh Government's Llandudno Junction office on a 10-year lease arrangement.

2.29 Some aspects of the specification for, and costing of, the new centralised service have yet to be finalised. However, as at July 2013, the Student Loans Company had estimated that the new service is likely to employ around 140 staff. The company has estimated that the annual cost of running the new service in 2015-16 will be around £3.1 million, with the total costs for developing and operating the new service between 2012-13 and 2015-16 amounting to £11.45 million (Figure 9). The Welsh Government and the Student Loans Company expect to discuss further the Welsh Government's anticipation that there will be scope for significant efficiency savings beyond 2015-16.

2.30 We have not examined the full details of the work undertaken by the Welsh Government, the Student Loans Company and other key stakeholders to develop the 'Student Finance Wales Modernisation Project'. The Welsh Government is confident that lessons have been learnt from the problems experienced in England. Officials from the UK Government's Department for Business, Innovation and Skills have attended the Welsh Government's project board to share the lessons learnt and the Welsh Local Government Association has sought the views of local government officers in England. Also, the Welsh Government is represented on the board of the Student Loans Company³¹, which has helped to provide assurance regarding the company's response to the problems experienced in England and its commitment to the planned service changes in Wales.

Figure 9 – Estimated costs for developing and operating the new centralised Student Finance Wales service between 2012-13 and 2015-16, as at July 2013

Expenditure area	2012-13 (£ million)	2013-14 (£ million)	2014-15 (£ million)	2015-16 (£ million)	Total (£ million)
Feasibility	0.84	-	-	-	0.84
Delivery	-	2.48	0.71	0.04	3.23
Recurring ¹	-	1.70	2.64	3.05	7.39
Total project implementation	0.84	4.17	3.35	3.09	11.45

Note

¹ These recurring costs are in addition to the costs charged to the Welsh Government by the Student Loans Company for the provision of existing services for the processing of student loan and grant payments and the collection of loan repayments.

Source: Student Loans Company business case document, July 2013

³¹ In December 2011, a Welsh Government Internal Audit Services report found that, while Welsh Government officials were attending Student Loans Company board meetings, the lack of legal basis to the Welsh Government's existing service level agreement, coupled with the Welsh Government's non-shareholder status, left it legally vulnerable. The service level agreement has been left unchanged pending completion of the Student Finance Wales Modernisation Project, although the Welsh Government has made other changes to the way it monitors the Student Loans Company's performance. In addition, the Welsh Government took a formal five per cent stake in the Student Loans Company in December 2012.



- 2.31** The Student Loans Company provided verbal and written evidence to the National Assembly's Children and Young People Committee in May and June 2013 as part of the committee's consideration of the Further and Higher Education (Governance and Information) (Wales) Bill³². Acknowledging the problems that emerged in England in 2009-10, the Student Loans Company explained that the systems that it will use to process student finance applications for Welsh-domiciled students are already in place and have, now, been shown to be working well.
- 2.32** The Children and Young People Committee's report noted its residual concerns about the accessibility to students of the new centralised Student Finance Wales service and about the need for continued support at a local level for students with additional needs and in the Welsh language³³. The modernisation project has taken these concerns into account and the Student Loans Company has committed to bilingual communication.
- 2.33** At a local level, the Students Loan Company will rely heavily on its delivery partners, notably Careers Wales and career/education advisers working in schools and in higher education, to provide student finance advice. The Student Loans Company has identified that it will employ a student finance adviser in North Wales and another in South Wales to support these outreach functions but the Welsh Government has recently asked the company to consider expanding the staffing resource for this work. The Welsh Government wants the advisers to focus on support in Communities First areas and for vulnerable student groups regardless of age who, if not adequately supported by the new system, may not enter higher education.
- 2.34** The risk register for the modernisation project has identified support for vulnerable students as a risk that needs managing. Other risks include:
- a** The Student Loans Company's capacity to implement and resource the project in light of competing demands on the company's capacity. The Welsh Government is represented on a Student Loans Company Capability Review Audit Panel, which was established by the UK Government's Department for Business, Innovation and Skills.
 - b** A decline in service quality during the transition period because of disinvestment in existing local authority services. The Welsh Local Government Association told us that there is an early warning system in place and an agreement across local government that other local authorities will step in to provide services if another's service cannot continue in the short-term. For example, Newport City Council has already passed over its service to Cardiff Council. The Welsh Local Government Association also told us that some local authorities have provided incentives to staff to remain in post ahead of the transition, even if they do not intend to transfer to the Student Loans Company. The Welsh Government is considering requesting individual resilience plans from local authorities.

³² The provisions of this bill are, in part, intended give effect to Welsh Government policy to allow data relevant to student grants and loans to be shared by Her Majesty's Revenue and Customs with the Welsh ministers and anyone to whom the Welsh ministers delegate or transfer functions. Welsh Government, *Further and Higher Education (Governance and Information) (Wales) Bill – Explanatory Memorandum*, April 2013.

³³ National Assembly for Wales – Children and Young People Committee, *Further and Higher Education (Governance and Information) (Wales) Bill – Stage 1 Committee Report*, July 2013.

The new system for processing student finance applications will need to address weaknesses in the current local authority managed arrangements and the increased risk of fraud

2.35 In August 2012, the Wales Audit Office reported to the Welsh Government the findings from a Welsh Government commissioned review of the controls in place in respect of student finance applications, including eligibility checks in respect of residency, at four local authorities. The Welsh Government had recognised the increased risk of fraud or error in the processing of student finance applications following the introduction of higher tuition fees and the new Tuition Fee Grant from 2012/13. The Wales Audit Office identified weaknesses in the Welsh Government's communication of guidance to local authorities and local authorities' awareness of that guidance. We also found significant weaknesses and inconsistencies in the processing of applications, examples of non-compliance with Welsh Government guidance and differences in the level of resources committed to this activity by different local authorities.

2.36 In April 2012, and in light of the findings emerging from our audit work, the Welsh Government wrote to all local authorities to emphasise the increased risk of fraudulent activity for 2012/13, and to remind local authorities of the checks that it expected them to be carrying out when processing student finance applications. 'Ordinary residency' in Wales is a key test of students' eligibility for support³⁴. The Welsh Government has emphasised that, in determining ordinary residency, each case should be decided on its merits, taking into account a number of material considerations (Box 3).

2.37 Welsh Government officials told us that the courts had previously determined that there can be no simple definition of 'ordinary residence' for the purpose of eligibility for student support. Our audit work at the four local authorities we visited found that there was some confusion about the conditions that needed satisfying regarding ordinary residency. For example, there was some inconsistency in the interpretation of when 'ordinary residency' in Wales is relevant – at the point of application, or at the point at which a student starts his or her course.

Box 3 – Considerations identified by the Welsh Government for determining 'ordinary residency' in Wales for the receipt of financial support from Student Finance Wales

- Where someone has recently moved to Wales, what is the purpose of the move?
 - If the move is wholly or mainly for the purpose of receiving education then the applicant will not be entitled to support from Student Finance Wales.
 - If the move is alleged to be for other than education purposes, what evidence is there to support this?
- If an applicant rents/purchases property in Wales prior to the start of the academic year, is there evidence of residence at that property during that period?
- If an applicant claims to have moved so as to work in Wales, what evidence is there to support this and is the work temporary/permanent, full-time/part-time?
- Where an income assessment has been undertaken on household income, where is the household located? Is the household located other than where the applicant claims to be ordinarily resident?
- How long has the applicant resided in Wales prior to the start of the academic term?
- If the applicant claims to have moved as part of a relocation of the student's family, is there evidence of this?

³⁴ Finance applications from EU (non-UK) students are already managed by the Student Loans Company and not by local authorities.



- 2.38** The Welsh Government and HEFCW have discussed the findings from our audit work amid concerns that they might affect the Auditor General's opinion on HEFCW's financial statements, specifically in respect of its Tuition Fee Grant payments³⁵. However, we are satisfied that the Welsh Government and HEFCW have taken appropriate and reasonable measures to underpin HEFCW's conclusion that there is no evidence of fraud of a material value in respect of its 2012-13 financial statements.
- 2.39** In December 2012, the Welsh Government wrote to all 22 local authorities in Wales requesting assurances over the controls in place, particularly in respect of student eligibility for funding. HEFCW's Head of Internal Audit has reviewed the responses from local authorities, which were of variable quality, and has sought additional assurance from a number of local authorities. The Head of Internal Audit has undertaken further assurance work to assess the levels of reported frauds, and to review Tuition Fee Grant take-up rates against Student Loans Company forecasts to check for any unusual variances. HEFCW has also received assurances from the Welsh Government regarding the controls exercised by the Student Loans Company over its Tuition Fee Grant payments on to higher education institutions.
- 2.40** The Welsh Government has recently commissioned further work by the Wales Audit Office to review the operation of controls in relation to student finance applications at nine other local authorities. The Welsh Government has selected the local authorities based on its own risk-assessment. This audit work is being carried out alongside an all-Wales National Fraud Initiative exercise on applications for student finance from students starting university in 2012/13 and 2013/14. This exercise will data match student finance applications with home addresses to ensure appropriate residence can be determined. Specific results from the data matching work will be reported to individual local authorities for further investigation as appropriate. Summary findings from the data matching work will be reported to the Welsh Government and will form part of our public reporting on the National Fraud Initiative in 2014.
- 2.41** The findings from this audit work will inform the audit of HEFCW's 2013-14 financial statements. So should any issues arising from the Welsh Government's management of the risks associated with the Student Finance Wales Modernisation project, although HEFCW is not currently represented on the project board for that work. In accepting responsibility for processing student finance applications from 2014/15 onwards, it is essential that the Student Loans Company establishes robust control arrangements to ensure proper and accurate payments to students and institutions and is able to provide the assurances that the Welsh Government and HEFCW require.

³⁵ In forming his regularity opinion, the Auditor General seeks assurance that, in all material respects, the expenditure and income shown in the financial statements have been applied to the purposes intended by the National Assembly and that financial transactions confirm with the authorities that govern them. HEFCW is responsible for the regularity and probity of the payments it makes to the Student Loans Company in respect of Tuition Fee Grant, but it has little control over the basis of the payments and the eligibility assessments that underpin them.

Changes to the higher education regulatory framework will not now take effect until the start of 2015/16 at the earliest following further consultation on the Welsh Government's plans

2.42 Between July and September 2012, the Welsh Government consulted on plans for a Further and Higher Education (Wales) Bill. Among other things, the Welsh Government was looking to use the bill to strengthen the functions of HEFCW (Box 4) against the backdrop of a changing higher education landscape³⁶ and the changing flow of Welsh Government funding to the sector as a consequence of current tuition fees policy and the introduction of the Tuition Fee Grant. The Welsh Government's intention was that the proposed changes would come into effect from the start of 2014/15³⁷.

Box 4 – The role of HEFCW

There are many aspects to HEFCW's current role which include:

- Distributing Welsh Government funding for higher education, specifically to support:
 - teaching of undergraduate and postgraduate courses for full-time and part-time students;
 - specific initiatives, such as widening access to higher education and Welsh-medium provision; and
 - research activities.
- Regulating the higher education sector in Wales, including monitoring the financial management and governance of institutions and their performance in delivering specific Welsh Government objectives.
- Ensuring that the quality of teaching at institutions is assessed.
- Approving and monitoring the implementation of institutions' tuition fee plans.
- Delivering strategic themes such as widening access, supporting student engagement, supporting innovation in universities and promoting research.
- Providing support to UK-wide agencies on behalf of the higher education sector in Wales, such as the Quality Assurance Agency and Jisc (formerly the Joint Information Systems Committee).

There are a variety of views about the overall performance of HEFCW and inevitably some tensions, which reflect its role as a funder and regulator. Senior staff and governors of institutions gave us examples of HEFCW providing effective support. However, HEFCW's own stakeholder survey results, and our own engagement with institutions, indicate that this view is not held consistently across the higher education sector.

³⁶ The Welsh Government's *Policy statement on higher education*, published in June 2013, recognises that there is likely to be growth in alternative models of provision, for example through e-learning, and greater differentiation in the provider base for higher education courses.

³⁷ The Welsh Government made clear that it did not intend to take forward within the scope of the planned legislation recommendations regarding national and institutional level governance of higher education that were proposed by an independent review group in 2011 (Welsh Government, *Achievement and accountability: Report of the independent review of higher education governance in Wales*, March 2011). The Welsh Government indicated that it would be returning to those matters in 2013/14, after giving time for further reconfiguration and the new funding arrangements to bed in.



- 2.43** In March 2013, the Welsh Government announced that it would be developing further its proposals on higher education and that the provisions for further education would be taken forward separately alongside the additional provision related to data sharing across further and higher education that supports the Student Finance Wales Modernisation project. To that end, the Welsh Government published its Further and Higher Education (Governance and Information) (Wales) Bill in April 2013.
- 2.44** The core purpose of the Higher Education (Wales) Bill as now proposed will be to strengthen HEFCW's regulatory functions³⁸. Higher education providers would be expected to sign-up to HEFCW's regulatory controls in order to see students be eligible for statutory student support, which the Welsh Government believes will incentivise compliance. The Welsh Government intends that organisations seeking designation for student support should be charitable bodies, so as to dissuade private provision in line with current Welsh Government policy and to ensure that the public subsidy of higher education does not benefit shareholders or for-profit organisations.
- 2.45** Any changes to the regulatory framework for higher education will not now take effect until 2015/16 at the earliest. The Welsh Government is confident that, in the meantime, higher education institutions will continue to be supportive of Welsh Government policy objectives within the context of the current regulatory framework. Meanwhile, we understand there are currently fewer than 500 Welsh-domiciled students studying on courses with private providers that are designated for student support.

Overall, HEFCW has responded effectively to the challenges it has faced as a result of the Welsh Government's tuition fees policy

HEFCW has managed changes to the distribution of Welsh Government funding well, although it will need to keep these arrangements under review as the full impact of higher tuition fees and the Tuition Fee Grant emerges

The introduction of the Tuition Fee Grant has reduced the extent to which HEFCW can influence Welsh higher education institutions through its teaching funding allocations and HEFCW is not able to control the amount of Tuition Fee Grant payable to institutions outside Wales, which is likely be around £68 million by 2014/15

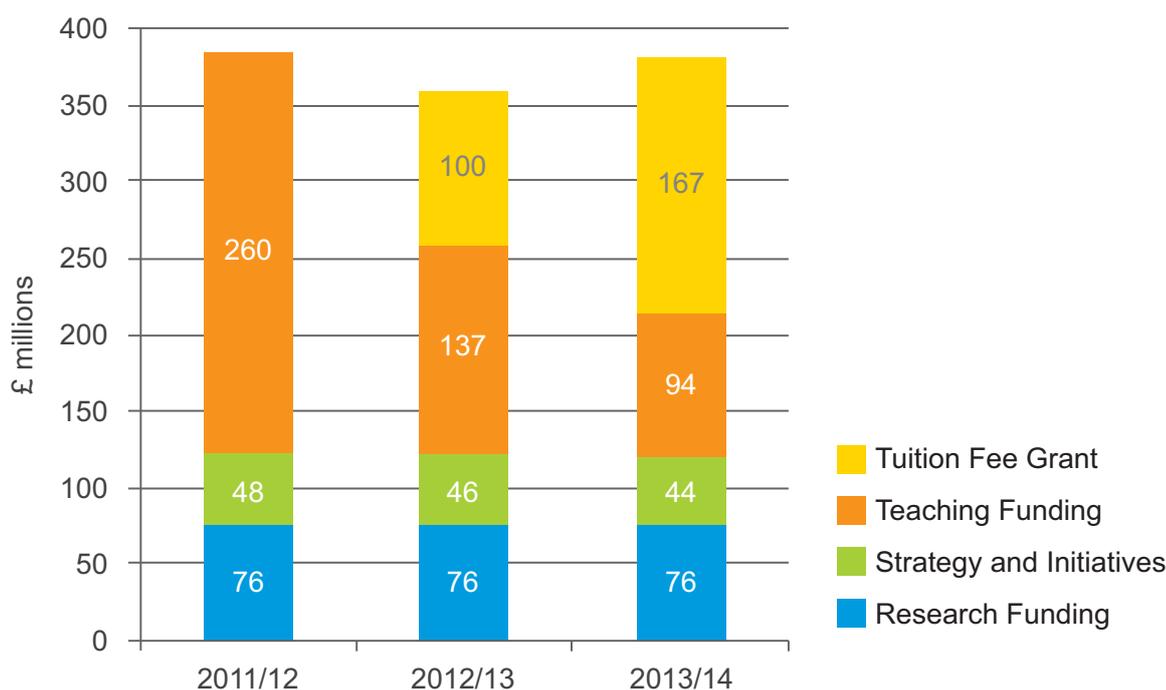
- 2.46** HEFCW's system to allocate teaching funding has a number of different elements. As in other parts of the UK, these have been designed to serve a variety of purposes; for example to subsidise the cost of providing expensive courses and to reward institutions for widening access in their student recruitment. In 2011/12, HEFCW allocated £258 million of teaching funding to higher education institutions in Wales and £2.6 million to five Welsh further education colleges for the provision of higher education courses to UK and EU-domiciled students³⁹. HEFCW controlled the total amount of funding it allocated, by imposing limits on the total number of these students that institutions could recruit.

³⁸ Welsh Government, *Higher Education (Wales) Bill: Welsh Government response to the higher education proposals of the FE and HE (Wales) Bill White Paper, and further technical consultation document*, May 2013. The Welsh Government has indicated that it no longer intends to take forward previous proposals in respect of: enabling higher education provision to be funded directly by Welsh Government where appropriate; placing a duty on HEFCW to make provision for enhancing the quality of higher education; and extending arrangements for dispute resolution and strengthening requirements relating to student union funding and the development of student charters.

³⁹ HEFCW had a direct funding arrangement with five further education colleges, but some higher education courses were also delivered in other further education colleges through franchise arrangements with partner universities.

2.47 From 2012/13, some of HEFCW’s teaching funding allocation is being used to pay for the new Tuition Fee Grant, including for Welsh-domiciled students studying outside Wales. Excluding funds for research and for ‘strategy and initiatives’, the cost of the Tuition Fee Grant is expected to consume around two-thirds of HEFCW’s remaining teaching funding allocation in 2013/14 (Figure 10). Tuition Fee Grant will consume an even greater proportion of the 2014/15 teaching funding allocation as more students who entered higher education before 2012/13 leave the system.

Figure 10 – HEFCW funding allocations, 2011/12 to 2013/14¹



Note

¹ These figures relate to all HEFCW funding, including part-time and postgraduate teaching funding as well as full-time undergraduate teaching funding. The figures represented here for 2012/13 and 2013/14 are estimates at a point in time.

Source: HEFCW Circulars: HEFCW Funding Allocations 2012/13 (W12/10HE), March 2012; HEFCW Funding Allocation 2013/14 (W13/09HE), April 2013.



2.48 The new funding regime has reduced the extent to which HEFCW can influence higher education institutions through the mechanism of teaching funding allocations and HEFCW has limited influence over the overall cost of the Tuition Fee Grant. In particular:

- a** While HEFCW can impose limits on student numbers across higher education in Wales, it cannot limit the number of Welsh-domiciled students who study in the rest of the UK, and hence the amount of Tuition Fee Grant flowing to institutions outside Wales. HEFCW and the Welsh Government rely on the regulatory systems in the rest of the UK to control student numbers and gain assurance that institutions outside Wales receiving Tuition Fee Grant funding have appropriate standards of quality and governance.
- b** HEFCW does not directly control the cost of the Tuition Fee Grant in respect of each individual student, as this is based on fees set by institutions (although the fees charged by Welsh institutions have to be approved by HEFCW within limits prescribed by the Welsh Government).

2.49 In addition, as the maximum fee is the same for all subjects, there is a potential imbalance in the relative resources available to institutions across Wales. Institutions providing a greater proportion of high-cost courses could make less of a surplus from the new fees compared to institutions whose courses are cheaper to deliver.

2.50 HEFCW currently expects around a third of its Tuition Fee Grant payments to go to institutions outside of Wales across the period 2012/13 to 2014/15 (Figure 11). The flow of students out of and into Wales is an area of inherent uncertainty for the Welsh Government, HEFCW and individual institutions. Some Welsh institutions reported to us that recruitment into specific English institutions for 2012/13 had adversely affected their own recruitment or that, for other reasons, their intake in 2012/13 did not match their expectations.

Figure 11 – Estimated Tuition Fee Grant payments by HEFCW to higher education institutions in Wales and elsewhere in the UK, 2012/13 to 2014/15

	2012/13 (£ million)	2013/14 (£ million)	2014/15 (£ million)
Welsh institutions	65	117	157
Rest of the UK ¹	34	50	68
Total	99	167	225

Note

¹ HEFCW expects there to be around 10 English institutions that will have each received more than £750,000 of Tuition Fee Grant in 2012/13.

Source: HEFCW

HEFCW has taken action to rebalance income across the higher education sector, control costs, recognise institutions' performance against certain strategic targets and preserve some support for high-cost courses, although these changes have not been universally welcomed and could have unintended consequences

2.51 For 2012/13, HEFCW continued to impose limits on the number of UK and EU-domiciled students that Welsh institutions could recruit. However, HEFCW realised that without changing its approach, its budgets would become increasingly difficult to manage with each successive intake of students receiving the Tuition Fee Grant.

2.52 HEFCW developed a revised system for 2013/14 to try and limit the Tuition Fee Grant payments it makes to Welsh institutions. The system also sought to rebalance income across the sector in light of the new funding regime and, in particular, to manage the impact of any potentially de-stabilising negative consequences for individual institutions. The revised allocation system proposed by HEFCW for 2013/14 was called the 'Strategic Reallocation of Numbers'. It removed student number allocations for certain subjects across all Welsh institutions and reallocated the pot of student numbers based upon two criteria⁴⁰:

a Encouraging institutions to reduce their fees for 2013/14 to an average of £7,500 or less. Five universities lowered their fees as a result and one institution had already set its fees below this threshold (Figure 12).

b Historic performance in four areas based on 2009/10 results – primarily research income and total income, but also in the number of active spin-off companies and number of overseas students. HEFCW focused on these areas as they related to priorities of the Welsh Government's For our Future strategy for higher education that were not covered by the separate fee planning process. This had the impact of ensuring that the more research-intensive institutions broadly maintained the number of students they were allowed to recruit without having to lower their fees.

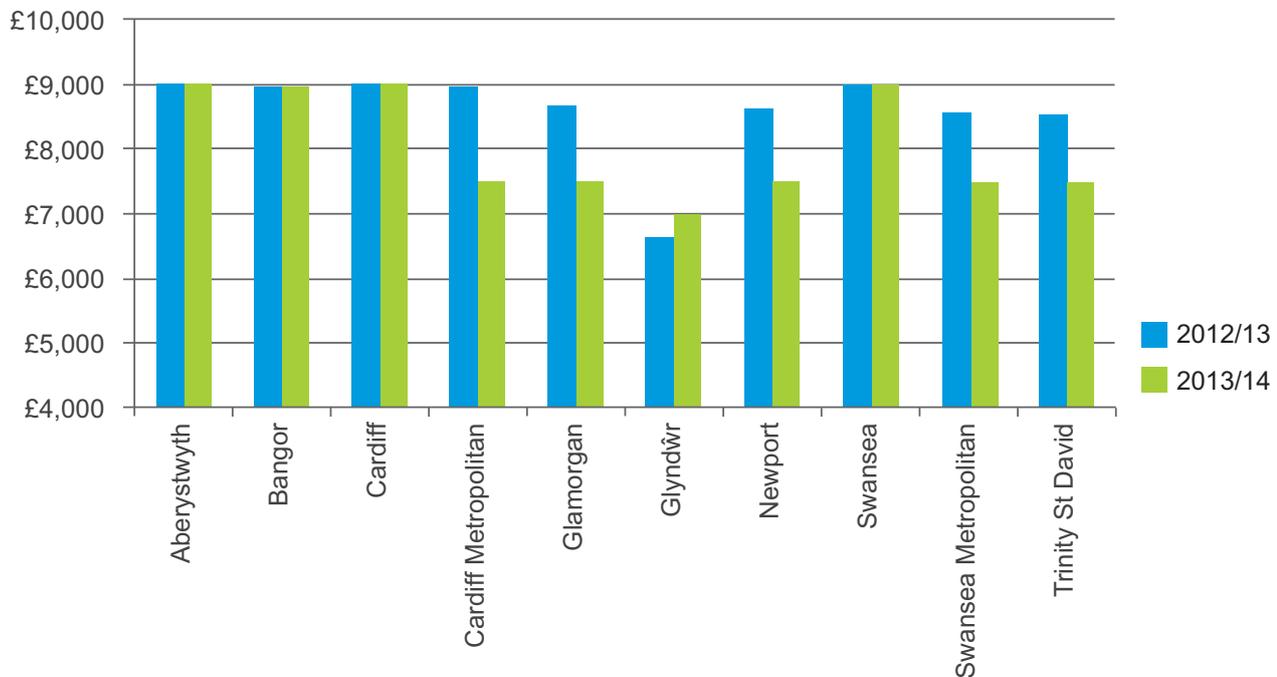
2.53 The proposals were criticised by some stakeholders because they involved controlling the numbers of students from the rest of the UK who studied at Welsh institutions. This control would not have had any bearing on the cost of the Tuition Fee Grant but would have limited institutions' recruitment potential and income. There was also some criticism of the encouragement through this process for institutions to lower their fees, rather than simply allowing student choice to take effect. After further consultation, HEFCW revised the system so that institutions were instead allocated a 'maximum fee grant' level rather than a maximum student number control (Appendix 3)⁴¹. The maximum fee grant was based upon the student number allocations resulting from the strategic reallocation process and then taking into account the proportion of Welsh and EU-domiciled (non-UK) students studying at each institution.

⁴⁰ The reallocation of student numbers applied to full-time undergraduate and Postgraduate Certificate in Education students. The numbers removed for reallocation were taken from 'non-priority' subjects; subjects other than science, technology, engineering, medicine and certain others deemed as priority subjects. Some institutions had an increase in the maximum number of students they could recruit and others had a reduction (Appendix 3). The proposals were described in detail in HEFCW Circulars W12/02HE (*Strategic Reallocation of Student Numbers 2013/2014*, January 2012) and W12/14HE (*Strategic Reallocation of Student Numbers 2013/14 – Outcomes*, April 2012).

⁴¹ HEFCW Circular W12/38HE, *Maximum fee grant arrangements 2013/14*, December 2012



Figure 12 – Average fee levels for Welsh higher education institutions in 2012/13 and 2013/14



Source: Wales Audit Office review of institutions' published fee plans

2.54 The maximum fee grant is designed to allow institutions flexibility in the number of students they recruit. However, HEFCW has explained that if recruitment at an institution means that the associated fee grant income would exceed the institutional maximum, institutions will have to either reduce the fees that they are charging to bring the total income of fee grants at their institution back within their maximum or accept a financial penalty.

2.55 As an institution reaches its effective quota of Welsh and EU-domiciled students, the Tuition Fee Grant cap could have an effect on the recruitment of Welsh students compared to students from the rest of the UK, limiting opportunities for Welsh students to study at Welsh institutions. However, HEFCW provides a tolerance level of five per cent above the Tuition Fee Grant limit and will permit

institutions to share any unused Tuition Fee Grant allocation with institutions that are expected to exceed their limit. How this arrangement will work in practice and if needed for the 2013/14 intake remains to be seen, and the cap will have limited effect on the overall cost of the Tuition Fee Grant should it simply result in more Welsh-domiciled students studying outside of Wales.

2.56 The maximum fee grant capping mechanism provides the opportunity for Welsh institutions to now recruit as many students from the rest of the UK as they choose. In England, institutions are able to recruit as many students as they wish for the 2013/14 intake if those students secure A-level grades of ABB or above (AAB or above for the 2012/13 intake), or equivalent qualifications. This has

introduced even greater competition among institutions in England for the most able students. This increased competition also impacts, potentially, on Welsh institutions given the extent of cross-border flows of students between Wales and England.

2.57 HEFCW, like other UK funding councils, has traditionally provided extra funding for subjects that are considered to be more expensive to deliver, alongside other premiums, such as for access and retention, disability and Welsh-medium provision. For new entrants in 2012/13, HEFCW considered that the higher tuition fees provided institutions with a similar level of resource to the 2011/12 combination of fees and funding allocations for most subjects. The only exceptions to this were clinical medical and dentistry provision, and the conservatoire training at the Royal Welsh College of Music and Drama. HEFCW has continued to pay an 'expensive subjects premium' for new students starting these courses from 2012/13.

2.58 The changes that HEFCW made to its funding of particular courses were similar in nature to changes introduced by the HEFCE for English institutions. However, there are differences in the detail and the complexity and divergence of funding allocations make a direct and accurate comparison of funding levels provided by HEFCW and HEFCE very difficult⁴². The Scottish Funding Council also changed the method it uses to allocate its main teaching grant to higher education institutions in Scotland in 2012/13, introducing a system based on six price groups⁴³.

2.59 The changes that HEFCW has made to its funding allocation process have not been universally welcomed. Individual institutions have been affected in different ways and it proved difficult for higher education institutions to forecast their financial plans with the degree of certainty they had previously experienced until the outcome of any changes to the funding allocation process was known. Our view is that, in the circumstances, the action that HEFCW has taken to change the way it distributes teaching funding has been reasonable and appropriate. HEFCW has engaged directly with institutions about the funding changes and has been open about the challenges it has faced.

2.60 However, the parameters used by HEFCW to limit Tuition Fee Grant payments are based on historic performance against priorities of a Welsh Government policy document that has now been superseded. In addition, as further cohorts of students enter higher education under the new fees regime, the cost to HEFCW of meeting Tuition Fee Grant payments will naturally increase. It is not certain that the current arrangements for distributing HEFCW funding will be sustainable, or will support institutions and the delivery of Welsh Government policy objectives, in the most effective way. This may necessitate further changes, leading to fresh uncertainty for higher education institutions in their financial planning. Meanwhile, institutions that agreed to reduce their fees in 2013/14 in return for a higher student number allocation from HEFCW may need to reconsider their position if recruitment falls short of expectations.

⁴² For example, HEFCE paid £9,804 per new full-time undergraduate on clinical medical and dentistry courses in 2012/13 compared to the HEFCW premium of £12,600. However, HEFCE paid other premiums that HEFCW did not and supported what it terms as 'strategically important and vulnerable subjects' in other ways.

⁴³ Scottish Funding Council Circular SFC/05/2012 and accompanying Technical Guidance, *Updated funding allocations to universities for academic year 2012-13*, March 2012



In order to keep its funding within the allocation provided by the Welsh Government, HEFCW has reduced its funding for part-time and postgraduate courses, and in support of certain strategies and policy initiatives

2.61 HEFCW provides additional teaching funding directly to Welsh institutions and the Open University in Wales to support the provision of part-time undergraduate courses. Plans for an increase in part-time fees in Wales and the introduction of an equivalent Tuition Fee Grant arrangement for part-time students were announced by the Welsh Government in 2011 but have since been put on hold.

2.62 In light of increasing commitments to fund the Tuition Fee Grant for full-time students and to maintain funding for other teaching, strategy and research purposes the amount of funding being made available for part-time study has been reduced by 20 per cent for 2013/14 compared with 2012/13 (from £39.3 million to £31.3 million). However, this follows a 12 per cent increase between 2011/12 and 2012/13. The allocation for postgraduate taught courses has reduced by £1.8 million (11 per cent) between 2012/13 and 2013/14 (Figure 13). Details of the additional funding that the Welsh Government has committed to provide

to HEFCW for 2014/15 to help ensure that institutions maintain tuition fees for part-time study at current levels are yet to be confirmed.

2.63 The amount of funding that HEFCW allocates per part-time student is, in part, demand led based on the number of students and the amount of study they complete. There are also certain additional premia payments. HEFCW had previously set a target for an increase in part-time student numbers but they have, in fact, fallen between 2008/09 and 2011/12 (Appendix 4).

2.64 HEFCW has made a commitment to limit any potential reduction in its funding to the Open University in Wales to no more than a 2.1 per cent reduction overall between 2012/13 and 2013/14. The Open University in Wales only has part-time students and, therefore, is not able to offset any reduction in income from HEFCW against any increased income arising from higher tuition fees for full-time students⁴⁴. HEFCW allocated £9.7 million to the Open University in 2012/13 and has indicated that the Open University would otherwise have faced a 13.8 per cent reduction in its funding for 2013/14 (to £8.4 million) had it applied the same formula that supported the distribution of 2012/13 funding.

Figure 13 – Part-time undergraduate and postgraduate taught course funding allocations from HEFCW by academic year

	2011/12 (£ million)	2012/13 (£ million) (% change from 11/12)	2013/14 (£ million) (% change from 12/13)
Part-time undergraduate funding	35.2	39.3 (+12%)	31.3 (-20%)
Postgraduate taught funding	16.3	16.4 (+1%)	14.6 (-11%)

Source: HEFCW

44 HEFCW Circular W13/09HE, HEFCW's Funding Allocations 2013/14, April 2013

2.65 HEFCW has maintained the same level of research funding to Welsh institutions, in cash terms – £76 million per year – throughout 2011/12, 2012/13 and 2013/14. However, there have been various changes in the funding that HEFCW has allocated to other areas. For example, funding for Welsh-medium provision has increased⁴⁵.

The Strategic Development Fund, which supports reconfiguration and collaboration activities, has also increased. However, HEFCW has reduced its other strategy budgets. In total, the budget for ‘strategy and initiatives’, which does not include research funding, has reduced by £2 million a year between 2011/12 and 2013/14 (Figure 14).

Figure 14 – HEFCW funding for strategy and initiatives by academic year

Strategy and Initiatives	2011/12 (£ million)	2012/13 (£ million) (% change from 11/12 in brackets)	2013/14 (£ million) (% change from 12/13 in brackets)
Strategic development fund	14.8	11.7 (-21%)	19 (+62%)
Welsh-medium provision	4.3	5.4 (+27%)	6.5 (+20%)
Learning and teaching	2.64	2.55 (-3%)	1.89 (-26%)
Reaching wider	2.24	2.12 (-5%)	1.89 (-11%)
Widening access	5.60	5.3 (-6%)	2.6 (-50%)
Innovation and engagement	8.5	10.5 (+23%)	5.7 (-45%)
Other (including support for UK sector bodies)	9.8	8.1 (-17%)	5.7 (-18%)
Total	48	46 (-5%)	44 (-3%)

Source: HEFCW Circulars: HEFCW Funding Allocations 2012/13 (W12/10HE), March 2012; HEFCW Funding Allocation 2013/14 (W13/09HE), April 2013

⁴⁵ HEFCW has set a target that the number of Welsh-domiciled students, where some element of their course is delivered through the medium of Welsh, will rise from 4,586 in 2008/09 to 5,509 in 2012/13. However, in 2011/12, the numbers had fallen to 4,328 (Appendix 4).



2.66 HEFCW expects to have to reduce further its 'strategy and initiatives' budgets beyond 2013/14 and is bringing to an end certain streams of funding under the innovation and engagement theme as well as the strategy funding for widening access and learning and teaching. However, institutions are expected to specify in their tuition fee plans how they will use some of their additional tuition fee income to support some of the sorts of activities previously funded by HEFCW. In particular, fee plans are intended to ensure that institutions seek continuing improvements in widening access to higher education⁴⁶.

2.67 In the past, HEFCW strategy funding has been distributed to institutions on the basis of a mix of formula allocations and project bids. With less strategic funding available in the future, HEFCW may be required to consider a different means of allocation in order to maximise the impact of the more limited funds.

2.68 In England, HEFCE's teaching funding budget is reducing by almost 50 per cent, from £4.3 billion in 2011/12 to £2.3 billion in 2013/14 to reflect the move towards students providing a higher proportion of institutions' funding through higher fees. By contrast, over the same period HEFCW's teaching grant is reducing by two-thirds. Like HEFCW, HEFCE's research budget has remained constant in cash terms over this period. Overall, HEFCE's remaining strategy and capital funding budgets have reduced by around seven per cent between 2011/12 and 2013/14, although the scale of the reduction is due, in part, to the allocations in 2011/12 and 2012/13 including a short-term commitment of an additional £26 million in capital funding for high performing computing. HEFCW does not have a comparable capital budget in its

main funding allocations for Welsh institutions. Notwithstanding any additional fee income that institutions can now generate, and while dependent on future funding decisions in Wales and England, there are concerns amongst Welsh institutions that they may face a growing funding gap compared with English institutions.

HEFCW has managed the fee planning process well to date, particularly given the initial time constraints, but recognises that the process needs further development

The introduction of higher tuition fees from 2012/13, combined with the introduction of the Tuition Fee Grant and the reduction in HEFCW's direct teaching funding, increases the significance of HEFCW's role in regulating institutions' fee plans

2.69 The main way in which HEFCW regulates tuition fees and fair access for full-time higher education in Wales is through the approval and monitoring of institutions' fee plans. Arrangements for the regulation of tuition fees and fair access in other parts of the UK reflect different structural arrangements and differences in tuition fees policy (Appendix 2).

2.70 Approved fee plans have been in place in Wales since 2007/08, when Welsh institutions charged fees in the region of £3,000. With the introduction of fees up to £9,000 from 2012/13, the requirements for the fee planning process have increased and HEFCW has been given a statutory responsibility for their approval and enforcement⁴⁷. As HEFCW's teaching funding allocations reduce, fee plans will become an increasingly important lever with which HEFCW can influence higher education institutions in delivering the Welsh Government's higher education policy objectives.

⁴⁶ One of HEFCW's main targets for the sector relates to the percentage of Welsh-domiciled students undertaking higher education courses at Welsh institutions who come from 'Communities First' areas. As at 2011/12, and following a gradual increase over previous years, the percentage rate stood at 16.9 per cent compared with the target of 17.2 per cent by 2012/13 (Appendix 4).

⁴⁷ Welsh Government, *Student Fees (Approved Plans) (Wales) Regulations 2011*, February 2011. The arrangements for regulating tuition fees and fair access in Wales differ from the arrangements elsewhere in the UK, although they are similar in nature (Appendix 2).

2.71 From 2012/13, Welsh institutions that want to charge fees of more than £4,000 a year for new UK and EU-domiciled students attending full-time undergraduate courses, are now required to have a fee plan approved by HEFCW every year⁴⁸. This contrasts with the previous approved fee plans from 2007/08 which covered a period of five years.

2.72 HEFCW's assessment of fee plans for Welsh institutions has, to date, been an iterative process of review and revision prior to final approval by HEFCW. Among other things, HEFCW expects institutions to set out in their fee plans:

- a** the proposed level of fees for its applicable courses;
- b** the part of the new fee income that will be spent on certain activities, for example to promote equality of opportunity;
- c** what those activities will be, related targets and monitoring arrangements; and
- d** how they will communicate with students about courses, fees and financial support.

HEFCW recognises that the fee planning process needs further development, although the arrangements for 2014/15 have been left unchanged

2.73 Fee plans are currently submitted to and approved by HEFCW well in advance of the student intake they relate to, as institutions need to communicate their planned fees to prospective students ahead of the start of the application process. Institutions' fee plans for 2012/13, the first year of the new fee regime, were approved by HEFCW in July 2011. As a result, there is a long period of time between

fee plans being approved, delivered and assessed (Figure 15).

2.74 The fee planning timetable means that HEFCW approved institutions' 2013/14 fee plans before the 2012/13 intake had started their courses. Similarly, the plans for 2013/14 and 2014/15 were approved before HEFCW was in a position to evaluate delivery against the 2012/13 plans. The National Union of Students Wales told us that it had received some positive feedback from local student unions about the impact of the fee planning process in promoting activities to widen access and assist student retention. HEFCW's formal evaluation of the 2012/13 plans is currently underway.

2.75 The arrangements for fee planning in 2012/13 had to be developed in a short space of time and, overall, we consider that HEFCW has managed the process well given the time constraints. In January 2013, HEFCW started a consultation with the higher education sector to reflect on their experiences of the fee planning process to date⁴⁹. In addition to the time lag between agreement, delivery and assessment of fee plans, other issues considered in the consultation were:

- a** the coherence of targets included in fee plans with other targets for the sector, either set by HEFCW or by institutions in their own strategic plans;
- b** the clarity of targets and activities, and their effectiveness in achieving policy objectives, particularly given the reduction in other HEFCW funding for specific strategies; and
- c** the integration of the fee planning process with other HEFCW monitoring work.

⁴⁸ The current regulatory framework for fees and fair access, the legislation that underpins it, and the higher education courses it applies to, is described in the Welsh Government's technical consultation on its proposed Higher Education (Wales) Bill: Welsh Government, Higher Education (Wales) Bill: Technical consultation, May 2013. The fee planning arrangements apply equally to higher education institutions and further education colleges that receive funding from HEFCW for full-time undergraduate courses. Fees for part-time undergraduate and postgraduate courses are not regulated.

⁴⁹ HEFCW Circular W13/01HE, *Consultation – high level proposals for fee planning from 2014/15*, January 2013



Figure 15 – Summary of the timetable for approving and monitoring higher education institutions' 2012/13 tuition fee plans¹

Date	Stage
February 2011	The Welsh Government published the <i>Student Fees (Approved Plans) (Wales) Regulations 2011</i> .
March 2011	The Welsh Government issued HEFCW with guidance on approving and enforcing fee plans.
April 2011	HEFCW published fee plan guidance for institutions.
May 2011	Institutions submitted fee plans for 2012/13 to HEFCW.
June 2011	Initial review of fee plans by HEFCW, dialogue with institutions and submission of revised fee plans.
July 2011	Final decision by HEFCW and approval of 2012/13 fee plans.
September 2012	First cohort of students started higher education courses under the new fees.
June 2013	Annual monitoring statement issued by HEFCW to institutions to evaluate delivery against the 2012/13 fee plan.
October 2013	Annual monitoring statement due to be returned by institutions to HEFCW.
March 2014	Annual report due to be produced by HEFCW.

Note

¹ In April 2012, HEFCW issued guidance to institutions to start the fee planning process for 2013/14 and then approved institutions' fee plans in July 2012. Similarly, in April 2013, HEFCW issued guidance to start the fee planning process for 2014/15, approving institutions' fee plans for 2014/15 in July 2013.

Source: *Wales Audit Office*

2.76 Following the consultation, HEFCW outlined changes to the fee planning process; including to the framework of targets used in fee plans and how they would be assessed⁵⁰. Ahead of the consultation, HEFCW had envisaged making changes to the fee planning process in time for the 2014/15 fee plans. However, HEFCW decided to delay the new arrangements for one year in response to feedback from the higher education sector and to give more time to develop the new arrangements.

2.77 The Welsh Government's recent technical consultation on its proposed Higher Education (Wales) Bill also proposes changes to the fee planning process and its relationship with other aspects of HEFCW's regulatory work to reflect the changing higher education funding regime and the potential introduction into the market of new regulated providers of higher education courses⁵¹.

⁵⁰ HEFCW Circular W13/10HE, *Fee planning proposals – consultation outcomes*, April 2013

⁵¹ Welsh Government, *Higher Education (Wales) Bill: Technical consultation*, May 2013

HEFCW has effective mechanisms to monitor the financial sustainability and governance of higher education institutions but has recognised the need to create a more coherent performance measurement system

HEFCW adopts an effective risk-based approach to monitor the financial sustainability and governance of higher education institutions in Wales

2.78 Given the small number of higher education institutions in Wales, HEFCW has a good working knowledge of each institution and has developed extensive professional networks both within Wales and beyond. Some representatives of those institutions reported to us that having a funding council that knows them well can be a significant benefit for them. However, others highlighted a risk that it could result in HEFCW ‘over-regulating’ institutions. HEFCW considers that, through its close contact with institutions, it has been able to mitigate potential risks affecting institutions’ overall sustainability, notably by supporting reconfiguration and collaboration.

2.79 One of the main ways that HEFCW monitors the financial sustainability and governance of higher education institutions in Wales is through a process it calls the ‘Institutional Risk Review’⁵². HEFCW carries out its main assessment in the spring, with an interim update in the autumn. HEFCW also holds meetings with institutions’ vice-chancellors and chairs of council or their equivalents, and has a rolling programme of institutional visits to meet governors, as well as ongoing engagement with officers. HEFCW’s risk review considers six key areas for each institution:

- a** sustainability (which includes financial health);

- b** governance and management;
- c** estates;
- d** research and knowledge transfer;
- e** students and quality; and
- f** strategic direction.

2.80 Drawing on a range of evidence it gathers from each institution, HEFCW produces a risk rating for each of these components. HEFCW then takes a holistic view of all these factors and gives each institution a single, overall risk rating. One of three risk ratings is allocated, with these ratings then affecting the frequency and scale of HEFCW’s ongoing monitoring activity. The risk ratings are:

- a** ‘Low risk’ – no major concerns. This will result in the standard approach to monitoring and engagement.
- b** ‘Moderate risk’ – some risk and/or accountability issues identified, leading to concerns about long-term sustainability, but not significant enough for the institution to be regarded as at high risk. This will result in increased engagement with the institution.
- c** ‘High risk’ – institutions which face threats to their short to medium-term sustainability. This will result in a high level of engagement with the institution.

2.81 The risk ratings used by HEFCW for each component, and the overall assessment, are intended to be holistic judgments that reflect the circumstances of each institution. HEFCW does not use any formula-based mechanism to determine the ratings. Instead, the ratings are discussed and agreed by a panel of senior HEFCW staff, and are shared with HEFCW’s

52 HEFCW Circular W09/20HE, *Strategic Engagement*, June 2009



Audit and Risk Committee. In spring 2013, two institutions were assessed to be 'low risk' overall and eight were judged to be 'moderate risk'. No institutions were considered to be 'high risk'.

2.82 HEFCW writes to the vice-chancellor and chair of the council of each institution, or equivalent, every year to inform the institution of the final, overall risk assessment attributed to it, and to highlight any significant risks that may need to be addressed, although the risk ratings for each of the six components are not shared with the institutions. Based on our fieldwork visits and our analysis of information relating to the financial health of institutions, we consider that HEFCW's risk ratings and the issues highlighted by HEFCW in its communications to individual institutions are appropriate.

2.83 HEFCW commissioned an internal audit review of its risk review arrangements in 2012 and is implementing the review's recommendations. The actions that HEFCW has taken include revising the format of its risk letters to institutions so that the findings and required actions, including the timetable for actions, are clearer.

2.84 HEFCW has also been considering how to adapt its risk assessment process in light of changes to its role in distributing funding to institutions. The Welsh Government's Technical Consultation on its Higher Education (Wales) Bill proposes that HEFCW's regulatory work should apply to all institutions in receipt of an approved fee plan and that HEFCW should prepare a new Financial and Corporate Governance Code of Practice. The consultation paper recognises that this assurance aspect of HEFCW's role may

take greater precedence as its funding role changes, and it considers ways in which HEFCW may intervene to ensure that regulated institutions comply with the new code.

2.85 HEFCW's risk rating process is similar in nature to the equivalent process used in England, although HEFCE's system only differentiates whether or not institutions are deemed to be 'at higher risk'⁵³. The National Audit Office reported on HEFCE's financial monitoring and risk assurance work in 2011. The report recommended that HEFCE should use a broader range of risk assessment ratings⁵⁴. The Scottish Funding Council undertakes a similar analysis to that undertaken by HEFCW but focusing mainly on financial health and governance issues. The Scottish Funding Council only provides feedback to institutions where it has specific concerns.

HEFCW's monitoring of the higher education sector's performance against key Welsh Government policy objectives over the past few years shows a mixed performance and HEFCW has recognised the need to create a more coherent performance measurement system

2.86 HEFCW monitors the performance of the sector against broader Welsh Government policy objectives for higher education. HEFCW measures how well the sector as a whole is doing and reviews the strategies, targets and performance of individual institutions.

2.87 Overall, the performance of the higher education sector against the targets set out in HEFCW's 2010-11 to 2012-13 corporate strategy⁵⁵ has been mixed (Appendix 4). For example, the sector has performed well in

⁵³ HEFCE's defines that an institution is at higher risk when in its judgement and on the basis of all available evidence, it: faces threats to the sustainability of its operations either now or in the medium term; has serious problems relating to value for money, propriety or regularity (that is, whether funds are used for the purpose intended); or has materially ineffective risk management, control or governance. HEFCE, *Model Financial Memorandum between HEFCE and institutions*, July 2010.

⁵⁴ National Audit Office, *Regulating financial sustainability in higher education*, March 2011

⁵⁵ HEFCW, *Corporate Strategy: 2010-11 – 2012-13*, June 2010

increasing the proportion of Welsh students coming from Communities First areas every year from 2008/09 to 2011/12. However, against a target to increase numbers, over the same period the number of part-time students in Wales has decreased every year.

2.88 In May 2013, HEFCW published a new corporate strategy for the three years from 2013-14 to 2015-16⁵⁶. The new strategy includes some revisions to existing targets and some new ones, for example about quality standards and research excellence in universities. The publication of HEFCW's new strategy pre-dated the Welsh Government's release, in June 2013, of its latest *Policy statement on higher education*⁵⁷. There has not yet been any specific dialogue between the Welsh Government and HEFCW about any new or amended sector targets to reflect the direction of travel set out in the policy statement.

2.89 At present, HEFCW collects a vast array of information about institutions and monitors a variety of targets across different aspects of its work. HEFCW aims to align and integrate its headline performance measures for the sector, as set out in its corporate strategy, more clearly with other aspects of its work; such as fee planning. As at September 2013, the detail of potential changes had not been finalised. However, in principle, the alignment and integration of performance measures could result in a simpler and more coherent system for both HEFCW and institutions, with clearer accountability.

2.90 A number of the measures in HEFCW's new corporate strategy are expressed in terms of performance compared to other parts of the UK. For example, the performance measure

for part-time study has now changed from a target number of students taking part-time courses to: 'The percentage change in the number of part-time students attending higher education courses in Welsh higher education institutions and further education institutions to be equal to, or greater than, the comparable figure for the UK'.

2.91 While the ambition to benchmark against UK-wide trends is commendable, the use of relative rather than absolute targets can draw attention away from a general decline in performance and can make it difficult to attribute specific targets to individual institutions. In some cases, HEFCW has set both relative and absolute targets covering the same issue. However, this is not the case for part-time students. The new measure for part-time students follows a period when part-time student numbers have declined substantially in Wales and when there is already evidence of large reduction in student numbers in England since 2010/11. Moreover, the part-time measure is intended to be an indicator of a wider outcome about measuring the extent to which improved part-time learning opportunities are offered. As currently worded, achieving the target measure will not necessarily indicate that the intended outcome has been achieved.

2.92 Part of HEFCW's role is to ensure data quality, both in respect of performance information and other data, notably data on student enrolments which determines institutions' funding. HEFCW's data quality arrangements include the provision of guidance for institutions' internal auditors, which is updated annually, and HEFCW receives copies of internal audit reports.

⁵⁶ HEFCW, *Corporate Strategy 2013-14 – 2015-16*, May 2013

⁵⁷ Welsh Government, *Policy Statement on Higher Education*, June 2013



2.93 HEFCW also commissions independent external audit work on individual institutions' data quality arrangements on a five-year cyclical basis. HEFCW shares anonymised findings across the higher education sector and each institution receives a response in writing from HEFCW regarding the work undertaken at their institution. While the balance of internal audit and external audit work is likely to remain unchanged, HEFCW has been reviewing these data quality arrangements to ensure that the focus of the work undertaken is relevant to the current funding and regulatory regime.

Implementation of the new tuition fees policy has come at a time when the Welsh Government and HEFCW have been managing the impact of measures to reduce their running costs

2.94 Over recent years, the Welsh Government has been going through a process of staff reduction that has seen overall staff numbers reduce by around one-fifth. The Welsh Government's higher education division has not been able to provide us with exact data but has estimated that, between April 2010 and April 2013, its full-time equivalent staff numbers fell from 33.8 to 26.4 (a 22 per cent reduction).

2.95 Following his appointment in October 2012, the Welsh Government's new Permanent Secretary commissioned an internal review of resources, skills and flexibility with a view to delivering the Welsh Government's work in a way that better supports ministerial priorities. In response to that review, and alongside a range of other actions, the Welsh Government has indicated that it intends to move at least 20 per cent of its central services resources out to support frontline policy and delivery departments during the course of 2013-14. The Department for Education and Skills stands to gain around £1.25 million worth of resource from the centre. As at September 2013, no decision had been made on the allocation of that resource across the department, including to the higher education division.

2.96 HEFCW's running cost budget has fallen by 15 per cent in cash terms between 2009-10 and 2013-14, from £3.54 to £3.02 million. HEFCW ran a voluntary exit scheme for staff in 2012-13 and accompanied this with an organisational redesign. Staff numbers reduced from 55 at the start of 2012-13 to 47 by the start of 2013-14 (a 15 per cent reduction). The effects of this reduction in staff numbers and the organisational redesign were yet to be felt in full at the time of our review.

2.97 HEFCW recognises that further changes to the organisation may be required as its funding role continues to develop, its regulatory functions potentially take more prominence in light of the increasing financial risks for institutions arising from current tuition fees policy, and if and when any changes to its role arise from the Welsh Government's proposed Higher Education (Wales) Bill.

Part 3 – While they face significant challenges and uncertainties, the financial health and financial planning and management arrangements of higher education institutions in Wales are generally sound

- 3.1** This part of our report focuses on the financial health of higher education institutions in Wales and their financial planning and management arrangements. When considering financial health, we have included consideration of the level of surplus return on income over expenditure, the level of reserves held by institutions and the extent of institutions' borrowing commitments. We have based our analysis on information relating to the 10 higher education institutions in Wales that were regulated by HEFCW as at the end of 2011/12⁵⁸.
- 3.2** All the financial data in this part of our report is presented in cash terms, without taking account of inflation, and is based on higher education institutions' financial year which, like the academic year, ends on 31 July. To respect commercial confidentiality, we have presented financial forecast data at a sector-wide level. However, **Appendix 5** provides some additional supporting data for individual institutions, based on data from institutions' audited financial statements for 2010/11 and 2011/12.
- 3.3** HEFCW is in the process of collating updated financial forecasts from individual institutions. There have been some notable changes in the forecasts provided by individual institutions, including some inevitable changes arising from institutional mergers. While final sector-wide figures are not yet available and there will be differences in detail, HEFCW expects the overall sector-wide trend to be similar to that forecast in July 2012.
- 3.4** When comparing the forecasts prepared by Welsh institutions with financial out-turn data and forecasts for English institutions, we have drawn on information published by the Higher Education Funding Council for England (HEFCE) based on forecasts submitted by English institutions in June 2012 and December 2012. In October 2013, HEFCE published updated information based on forecasts submitted by English institutions in June 2013. Comparisons with out-turn data for Scottish institutions are based on information published on the Scottish Funding Council's website⁵⁹.

⁵⁸ This analysis, therefore, excludes the University of Wales Registry and the Open University and pre-dates recent higher education institution mergers (Appendix 1).

⁵⁹ HEFCE issues paper, *Financial health of the higher education sector 2011-12 to 2014-15 forecasts*, November 2012/30; HEFCE issues paper, *Financial health of the higher education sector 2011-12 financial results and 2012-13 forecasts*, March 2013/04; HEFCE issues paper, *Financial health of the higher education sector 2012-13 to 2015-16 forecasts*, October 2013/29; Scottish Funding Council, *University 2011-12 consolidated spreadsheet*, www.sfc.ac.uk/funding/FundingOutcomes/Governance/Financialsustainability/FinancialSustainability.aspx

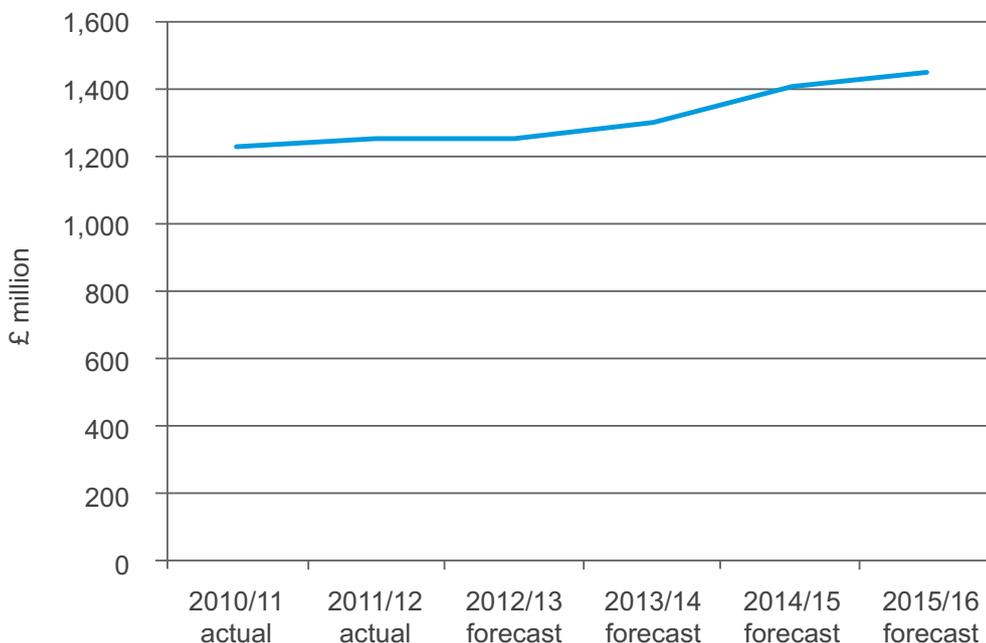


The financial health of higher education institutions in Wales is generally sound, although institutions face significant challenges and uncertainties in an increasingly competitive operating environment

The total income of the sector is forecast to grow, but this depends heavily on institutions' ability to attract students

3.5 In 2011/12, the total income of higher education institutions in Wales was £1.26 billion, which represented 4.5 per cent of total income across all UK institutions⁶⁰. Based on forecasts collated by HEFCW in July 2012, the income of Welsh institutions was expected to remain broadly flat in cash terms between 2011/12 and 2012/13 before increasing progressively to £1.45 billion in 2015/16 (Figure 16).

Figure 16 – Total income of Welsh higher education institutions, 2010/11 to 2015/16¹



Note

1 The Welsh Government's recent *Policy Statement on Higher Education* (June 2013) contains a chart which, although based on different data and reported by financial year, shows the same broad trends.

Source: *Wales Audit Office review of institutions' audited financial statements and financial monitoring returns to HEFCW in July 2012*

60 Total UK income in 2011/12 was £27.8 billion (Higher Education Statistics Agency, www.hesa.ac.uk/).

- 3.6** Using income as a measure of size, there is wide variation in the size of the different institutions in Wales ([Appendix 5](#)):
- a** Cardiff University is the largest with £426 million income in 2011/12, equivalent to a third of the total income of the sector in Wales; and
 - b** Glyndŵr University is now the smallest with £48 million income in 2011/12, which is four per cent of the total income of the sector in Wales⁶¹.
- 3.7** 2012/13 was the first year of transition to a predominantly fees basis for funding teaching, and the associated transitional funding arrangements was a key factor in total income in 2012/13 being forecast (in July 2012) by many institutions to be similar to 2011/12. Most institutions have indicated more recently that their 2012/13 financial results, including total income, should be better than originally forecast in July 2012. HEFCW's view is that it is for individual institutions to determine the basis of their own forecasts but, informally, HEFCW encouraged institutions to adopt a cautious approach for 2012/13 because of the uncertainties associated with the introduction of higher tuition fees and the Tuition Fee Grant.
- 3.8** During our visits to institutions, senior managers and governors frequently emphasised that the uncertainty faced by the sector in July 2012, notably in respect of future student recruitment made forecasting, particularly for the longer term, a significant challenge. Some institutions recruited fewer students for 2012/13 than they had budgeted for.
- 3.9** The growth in income in later years is forecast on the basis of growth in areas including teaching, research and collaboration with external partners, including overseas partnerships and students. The overall increase in teaching income is predicated on a forecast 6.5 per cent increase in total student numbers between 2011/12 and 2015/16, within which institutions forecast a 35 per cent increase in the number of full-time overseas students (non-EU). However, there is a risk associated with the forecasts of individual institutions because of the increased uncertainties relating to student recruitment.
- 3.10** In 2011/12, institutions received £431 million from tuition fees and £394 million from funding body grants, which together account for 65 per cent of total income. At £177 million, research grants and contracts accounted for 14 per cent of total income. Other sources of income, such as accommodation, contributed 20 per cent of total income. Institutions forecast that, by 2015/16, income from tuition fees will increase to £806 million (56 per cent of total income), while income from funding body grants will reduce to £168 million (12 per cent). This reflects a shift of funding from HEFCW teaching grants to Tuition Fee Grant, but with institutions being able to charge higher tuition fees to UK and EU-domiciled students. These sources of income combined are forecast to continue to account for around two-thirds of total income. Income from tuition fees for overseas students (non-EU) is forecast to rise by 56 per cent between 2011/12 and 2015/16, from £116 million to £181 million ([Figure 17](#)).
- 3.11** Overall, the balance between the different non-teaching sources of income is not forecast to alter significantly when comparing 2011/12 and 2015/16. At £207 million, research grants and contracts are forecast to remain at 14 per cent of total income. Other sources of income are forecast to be 18 per cent of total income in 2015/16, a reduction of two per cent on the 2011/12 share.

61 While they generated less income than Glyndŵr University in 2011/12, the University of Wales, Trinity Saint David and Swansea Metropolitan University have since merged.



Figure 17 – Sources of income for Welsh higher education institutions, 2011/12 and 2015/16

Type of income	2011/12 (£ million)	2011/12 (% of total income)	2015/16 (£ million)	2015/16 (% of total income)	2011/12 to 2015/16 (% increase in income)
Funding body grants	394	31%	168	12%	-57%
Tuition fees (of which)	431	34%	806	56%	87%
<i>UK and EU</i>	241	19%	554	38%	130%
<i>Overseas (non-EU)</i>	116	9%	181	12%	56%
<i>Other (including part-time fees)</i>	74	6%	71	5%	-1%
Research grants and contracts	177	14%	207	14%	17%
Other income	251	20%	263	18%	5%
Endowment and investment income	8	1%	8	1%	0%
Total income	1,260	100%	1,452	100%	15%

Source: Wales Audit Office review of institutions' audited financial statements and financial monitoring returns to HEFCW in July 2012

Expenditure is forecast to increase in line with income

3.12 Financial strategies for income diversification and growth, combined with cost control and strategic investment, are commonplace across higher education institutions. Total expenditure is forecast to increase by 16 per cent between 2011/12 and 2015/16, compared with the forecast 15 per cent increase in income.

3.13 Institutions' largest area of expenditure continues to be staff costs, which totalled £716 million in 2011/12, equivalent to an average for the sector of 57 per cent of total income, although ranging from 49 to 59 per cent at individual institutions. In England, institutions' staff costs were equivalent to 53 per cent of income on average in 2011/12, and the equivalent figure for Scottish institutions was 56 per cent.

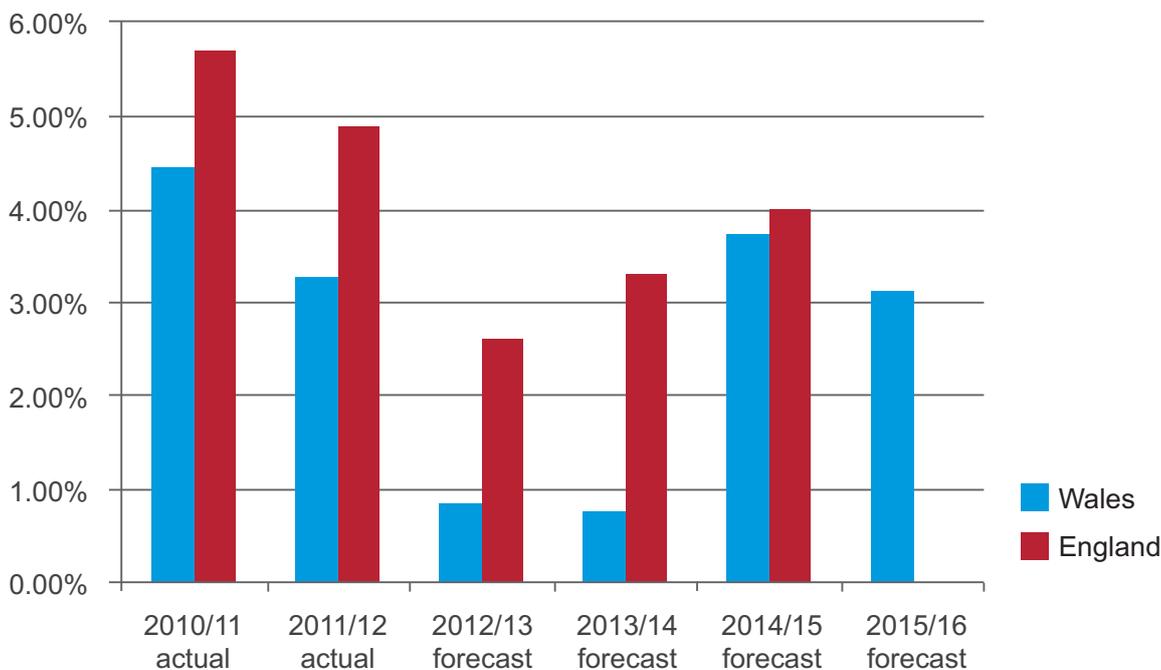
3.14 The measure of staff costs as a percentage of total income is used in the higher education sector as a rudimentary measure of efficiency. Based upon information submitted by Welsh institutions to HEFCW in July 2012, staff costs are forecast to remain broadly consistent as a percentage of total income for the foreseeable future, which might suggest that Welsh institutions are not becoming more efficient in this area. HEFCW has told us that the forecasts submitted by institutions since the start of July 2013 now show an overall reduction in staff costs as a percentage of total income. Nevertheless, the lower rate on average in England could be a prompt for institutions to compare their position with peers in the UK and examine the possible reasons for any difference.

Surpluses in the sector are forecast to fall in 2012/13 and 2013/14 before recovering in 2014/15 and 2015/16, although there is wide variation between institutions, and the average percentage surplus has been and is forecast to be less than in England

- 3.15** The historic cost surplus of income over expenditure is seen as a key indicator of institutions' financial health. In 2011/12, the combined historic cost surplus after tax of Welsh institutions was £41.5 million. This was a substantial reduction, of 24 per cent, from a combined historic cost surplus of £54.9 million in 2010/11. In July 2012, institutions forecast a surplus of only £10.5 million in 2012/13 and £9.8 million in 2013/14 before recovering to £53 million in 2014/15, perhaps reflecting prudent forecasting during the transition into the new fees and funding regime from the start of 2012/13.
- 3.16** In measuring the historic cost surplus after tax as a percentage of annual income, we found that, in line with many UK institutions, Welsh institutions had adopted either a three or five per cent target. Given the need for institutions to generate greater cash surpluses to self-fund capital investment, there appeared to be a trend of institutions moving to a five per cent target. The sector average surplus was greater than three per cent in 2010/11 and 2011/12. However, 2012/13 and 2013/14 surpluses were forecast to reduce to below one per cent, before recovering in 2014/15.
- 3.17** The average figures conceal wide variation between institutions. Some institutions have had planned short-term deficit budgets while others have had historic cost surpluses of over five per cent. For example, in 2011/12 Bangor University had a deficit of 0.7 per cent, while Swansea Metropolitan University reported a surplus of more than 21 per cent (Appendix 5). The ability to attract students, levels of research grant capture and collaborative partnerships were highlighted to us by the sector as key challenges for future financial health. These challenges are consistent with comments made by institutions' external auditors in their reports to audit committees.
- 3.18** On average, Welsh institutions have had, and are forecasting, a consistently lower percentage surplus than English institutions. This is particularly so for 2012/13 and 2013/14, for which although English institutions also forecast a substantial reduction in surpluses compared with 2011/12, the scale of the reduction is not as great (Figure 18). This situation could put Welsh institutions at a competitive disadvantage with English institutions as the generation of surpluses is important to support investment and maintain an institution's attractiveness to students.



Figure 18 – Historic cost surplus after tax as a percentage of annual income for Welsh and English higher education institutions, 2010/11 to 2015/16¹



Note

¹ Data in respect of English institutions was not available for 2015/16, based on the forecasts prepared by those institutions during 2012.

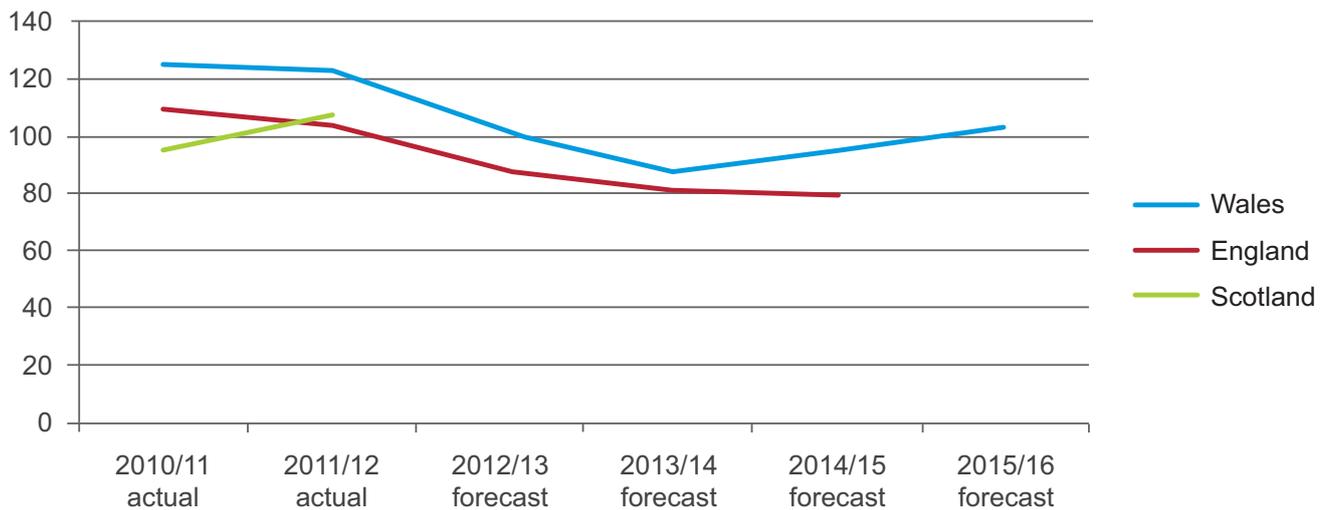
Source: Wales Audit Office review of Welsh institutions' audited financial statements and financial monitoring returns to HEFCW in July 2012. English data based on information published by HEFCE.

Most Welsh institutions have strong levels of cash resources compared to their expenditure and are forecasting that this will continue

3.19 At the end of 2011/12, most Welsh higher education institutions had strong levels of cash resources. Strong levels of cash resources are important to enable institutions to deal with any increased uncertainty in cash flow following changes to the funding and tuition fees system which began to take effect from the start of 2012/13. However, a number of institutions have identified cash flow forecasting as an area that needs to be strengthened.

3.20 The average level of 'liquidity' for Welsh institutions – the number of calendar days that cash resources would cover expenditure – has been and is forecast to be higher than in England and has been higher than in Scotland (Figure 19). On average, Welsh institutions had cash resources to cover just over four months' expenditure in 2010/11 and 2011/12 and have better previous and forecast liquidity than institutions in England. However, again there is wide variation between the Welsh institutions (Appendix 5).

Figure 19 – The number of calendar days that cash resources would cover expenditure, for Welsh, English and Scottish institutions, 2010/11 to 2015/16¹



Note
¹ Data in respect of English institutions was not available for 2015/16, based on the forecasts prepared by those institutions during 2012. Data for Scottish institutions was only available for 2010/11 and 2011/12.

Source: Wales Audit Office review of Welsh institutions' audited financial statements and financial monitoring returns to HEFCW in July 2012. English and Scottish data based on information published by HEFCE and the Scottish Funding Council respectively.

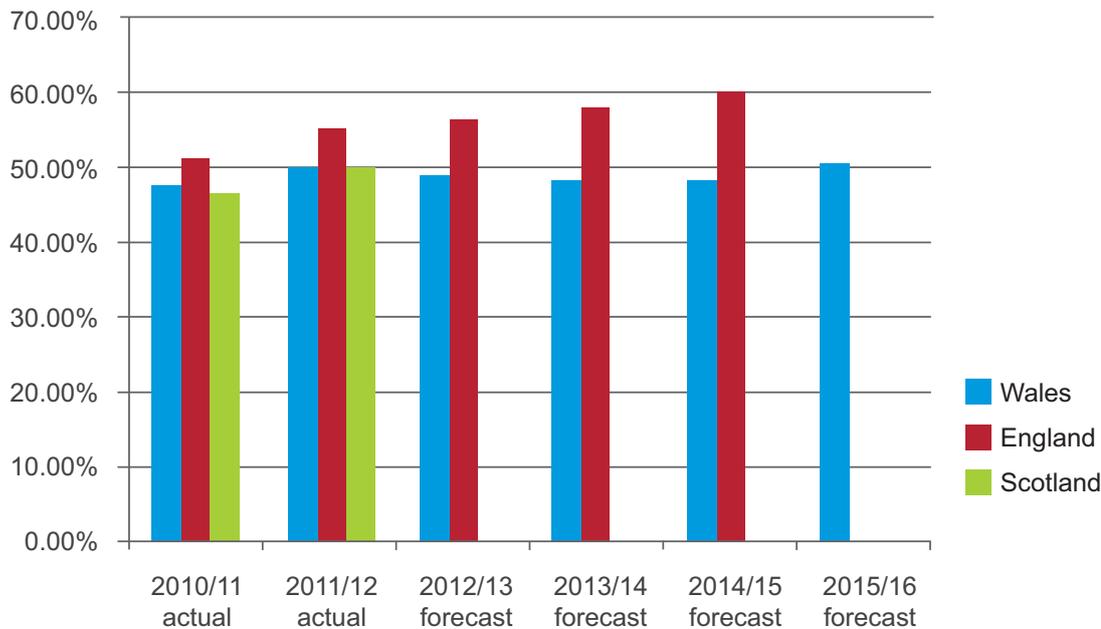
Welsh institutions have strong levels of discretionary reserves

3.21 At the end of 2011/12, Welsh higher education institutions' discretionary reserves totalled £629 million, equivalent to 50 per cent of their total income. Institutions have forecast that these reserves will increase to £735 million in 2015/16 (51 per cent of institutions' forecast income) as they continue to generate surpluses. On average, Welsh institutions consistently have a lower level of actual or forecast discretionary reserves than English institutions, although the level of reserves reported for 2010/11 and 2011/12 was similar to that reported for Scottish institutions (Figure 20).

3.22 Discretionary reserves are defined as general reserves and expendable endowment funds. This measure of discretionary reserves excludes the impact of measurable pension fund deficits, which amounted to £284 million in 2011/12. Due to the inherent difficulty in forecasting pension fund liabilities, the pension fund deficit has been excluded to aid comparisons between periods. However, addressing the net liability of pension funds is recognised as a significant issue for institutions over the longer term, as is the case in other sectors of the economy. Discretionary reserves are built up over time from surpluses achieved and expendable endowments received and are considered to be an indicator of financial health for this reason and because the resources that they represent have been used and are available to fund investments.



Figure 20 – Discretionary reserves as a percentage of annual income for Welsh, English and Scottish higher education institutions, 2010/11 to 2015/16^{1, 2}



Notes

- 1 Data in respect of English institutions was not available for 2015/16, based on the forecasts prepared by those institutions during 2012. Data for Scottish institutions was only available for 2010/11 and 2011/12.
- 2 The figures shown here are based on general reserves and expendable endowment funds and exclude the impact of measurable pension fund deficits.

Source: Wales Audit Office review of Welsh institutions' audited financial statements and financial monitoring returns to HEFCW in July 2012. English and Scottish data based on information published by HEFCE and the Scottish Funding Council respectively.

External borrowing across Welsh institutions is lower than in England but is predicted to increase to support investments

3.23 Generally, Welsh higher education institutions have low levels of long-term external borrowing, equivalent to around 11.3 per cent of annual income on average in 2011/12. On average, the extent of borrowing is much lower than the 23.6 per cent level in England in 2011/12. However, while some Welsh institutions have no or negligible long-term debt, others have external borrowing equivalent to more than 30 per cent of their annual income (Appendix 5).

3.24 Institutions that already have relatively high levels of borrowing may have less capacity to borrow further to support investments. Many Welsh institutions have announced plans for infrastructure developments and their financial forecasts, submitted to HEFCW in July 2012, show that external borrowing is predicted to increase over the medium term to an average of 17.5 per cent of total income in 2015/16.

3.25 Welsh institutions spent £91 million capital investment on their estates in 2010/11, excluding expenditure on repairs and maintenance. However, 2011 estate management statistics⁶² show that a large

⁶² Estate management statistics are published online by the Higher Education Statistics Agency

proportion of some institutions' non-residential buildings are in a poor condition, with Welsh institutions reportedly requiring £150 million of investment to address backlog maintenance requirements.

- 3.26** In an increasingly competitive environment for students and academic staff, combined with reductions in public funding for infrastructure, institutions recognise that they will need to increase surpluses to generate the cash flows to enable them to borrow for investment.

The higher education sector in Wales continues to be an attractive area for investment by banks, but institutions may need to look for more innovative ways of funding capital projects

- 3.27** The higher education sector is seen by banks as having a strong system of regulation in place and an attractive asset base against which to lend. Historically, institutions would have been able to borrow over long periods, up to 30 years, at relatively low rates of interest. The 'credit crunch' has, however, meant that, although the banks have no less appetite to lend in the sector, typical loan financing is now over shorter periods and the terms are more stringent. This has led to institutions extending the search for funding outside the traditional UK banks. For example, Swansea University secured £60 million of funding from the European Investment Bank in relation to its second campus project.
- 3.28** In the current financial climate, institutions may need to explore other innovative financing solutions, such as the bond market which currently has relatively low rates of interest. There have been recent bond issues at English institutions, for example De Montfort University issued a £110 million bond to fund an upgrade in facilities in 2012.

- 3.29** The banks continue to see the need for strong financial control and regulation in the sector. The ability of institutions and their finance teams to deal with the impact of uncertainty in a changing economic landscape will continue to be important to funders in 'doing business' with institutions. Business planning, covenant monitoring and increased communication with banks and other funders in an uncertain and challenging environment requires a certain skill set and institutions recognised the need to ensure that this is an area kept under review.

Higher education institutions' financial planning and management arrangements are evolving appropriately to help meet their future challenges

To strengthen governance, institutions have focused on the composition of their governing bodies

- 3.30** Each higher education institution has a Council or Board of Governors (the Council), which is responsible for the institution's strategic direction and governance. The Welsh Government and HEFCW do not have a role in the management of individual institutions.
- 3.31** The composition of councils is an area that has received increasing attention across the higher education sector in Wales and beyond in an effort to ensure that Council members bring a range of relevant professional and commercial skills and experience above and beyond a specific understanding of higher education. To be successful, institutions now have to be modern, commercial enterprises equipped to compete nationally and internationally. Having the right skills and



experience at Council level to strengthen institutions' governance in this environment is important.

3.32 Many of the senior managers and governors that we met commented that institutional governance and the role of councils has improved considerably over the past 10 years, including changes in the skill set of council members. This feedback appears to reflect a more widely held view, including from HEFCW's perspective. Nevertheless, most chairs of council identified certain skill gaps that they were keen to address and noted that recruiting the right people is a challenge given the time commitment required and the fact that roles are unpaid. Some institutions have used executive research agencies to support recruitment and former students are often a key source.

Institutions have well-established financial planning arrangements, which appear to be reasonably sound, with a particular emphasis on identifying income generation opportunities

3.33 Institutions have established processes to produce and approve annual budgets and medium-term financial plans. These processes vary across the sector with some institutions centralising the process within the finance department while others devolve the process to budget holders.

3.34 Most of the senior managers and governors that we met expressed positive views regarding financial planning within their institution. In their view:

- a** the right people are involved in the budget setting process;
- b** budget holders are accountable for their budgets; and

c budgets and financial plans are generally subject to robust challenge – although the effectiveness of some council members' review of financial plans was reported to vary.

3.35 Most councils devolve scrutiny of financial plans to finance subcommittees. In practice this allows more time for review of financial plans, but brings with it the challenge to ensure that there is appropriately robust debate and scrutiny within the full council itself. However, institutions' finance and audit committees do include members with recent and relevant financial experience. In addition, many of the senior managers and governors that we met described examples of efforts to involve council members at an earlier stage in discussing the assumptions that underpin their institution's budget and the anticipated consequences of budget decisions.

3.36 Institutions' strategic plans demonstrate that they are increasingly pursuing a variety of income generation opportunities, and this was recognised by most of the senior staff and governors we met. These activities are often to fulfil a range of strategic objectives and are not purely to generate additional income.

3.37 In competition with other UK higher education institutions, Welsh institutions are increasingly targeting overseas students as a key source of profitable income. In addition to their overseas relationships, a number of Welsh institutions have a physical presence in London to provide better access to the market for international students.

3.38 There is evidence of a continued focus on cost control across the higher education sector, with internal restructuring continuing to an extent in most institutions, particularly

those which have merged in recent years. Most of the senior staff and governors we met believed that their institutions were actively pursuing efficiency opportunities, although they also noted that efficiency opportunities were not being pursued to the same extent as income generation. Institutions are wary of the impact of further cost-cutting on the student experience and the resulting effect on their competitiveness in attracting students.

Institutions' financial management arrangements are generally sound

3.39 Most of the senior staff and governors that we met expressed positive views about financial management at their institutions, and noted that there is an increasing appreciation of the importance of financial information with a reasonable level of challenge at board level. In their view:

- a** financial reporting is timely;
- b** prompt action is taken to resolve issues highlighted by financial reports; and
- c** the financial information reported is useful and ensures accountability.

3.40 Institutions are increasingly presenting financial information alongside non-financial information, which helps user understanding. However, the quality of financial information does vary between institutions and most institutions are seeking to improve their financial reporting. For example, some institutions produce information quarterly, whilst others do so monthly. Also, some institutions produce management accounts on a commitment, rather than an accruals, basis⁶³. Financial reporting on an accruals basis may be needed to meet requirements imposed by banks as part of any covenants attached to loans.

3.41 Institutions manage their costs in different ways, with some taking control centrally and others devolving responsibility to budget holders. Regardless of the approach taken, we found that all institutions have a good understanding of their income streams, expenditure base and the main activities that drive costs and that they are looking to develop a better understanding of the profitability of their activities. The extent to which institutions currently assess the profitability and general effectiveness of their courses varies. However, the increase in tuition fees and changes in HEFCW funding are bringing a heightened focus on this issue and recognition of the need for better co-ordination between academic departments and central functions such as finance and strategic planning.

3.42 Welsh institutions tend to have a reasonably successful track record of achievement of their financial plans. Most have been prudent in forecasting their financial performance and have achieved or exceeded forecasts in the recent past. As part of its regulatory role, HEFCW analyses each year the accuracy of institutions' financial forecasts and has not raised any serious concerns in the last two years.

Institutions have recognised the need for a change in culture and structure to help meet future strategic and financial challenges and to enable them to compete nationally and internationally

3.43 Institutions can demonstrate that they are adapting to changes in their external environment, although some have moved at a quicker pace than others reflecting their particular circumstances. For example, institutions are already structured or are re-structuring their internal management

⁶³ A commitment basis for preparing budget information is to include the expenditure when it has been committed. On an accruals basis the expenditure is included as and when a good or service has been provided (although not necessarily billed for).



arrangements to a structure comprising of a more a manageable number of faculties, with each faculty containing a group of academic departments. The faculty-based structure is intended to make best use of existing capacity and capability and to improve lines of accountability.

3.44 Currently, some finance departments still tend towards a traditional accounts department role, with a focus on compliance and processing. There is an increasing appreciation amongst finance directors, other senior managers and governors of the need to combine this role with a greater focus on providing insight and support to decision making so that finance departments add greater value to institutions' strategic development and their response to the financial challenges facing institutions. However, low staff turnover has affected the pace at which some finance departments have been able to adapt.

3.45 Based on our discussions with them, we consider that all the senior managers and governors we met demonstrated a good awareness of the risks and challenges associated with the new higher education funding regime and all institutions have plans to invest in improving the student experience to enhance their competitiveness. There is an increasing focus on risk management, particularly in a financial context, with financial risks and challenges featuring prominently within institutions' formal risk management arrangements. Institutions will need to be ambitious if they are to compete nationally and internationally, as encouraged by the Welsh Government's June 2013 *Policy Statement on Higher Education*. An increased risk associated with the development of such ambitious strategies is acknowledged. While the level of risk appetite varies across the sector, it appears to be increasing.

Appendix 1 – Methodology

This study was delivered by the Wales Audit Office in conjunction with work performed on our behalf by PricewaterhouseCoopers LLP (PwC).

Our work with the Welsh Government

We reviewed a wide range of Welsh Government documents. These included ministerial submissions, Cabinet and corporate governance committee papers, financial modelling data and supporting papers, risk registers, project plans and business cases and budgets. We also reviewed relevant work already undertaken by our own Welsh Government financial audit team and by the Welsh Government's Internal Audit Services.

We interviewed a range of Welsh Government officials from the Higher Education Division, and from the statistics and central finance departments.

Our work with HEFCW

PwC led this aspect of the work, collecting and reviewing a wide range of relevant data and documentation and conducting interviews with HEFCW officials.

The supporting data and documents included a range of published information, such as HEFCW circulars on funding allocations and other published guidance and consultations. HEFCW also supplied a range of other unpublished information, including details of its own financial modelling, institutions' financial forecasts and information relating to HEFCW's 'Institutional Risk Review' process.

Visits to higher education institutions

PwC led this aspect of the work. During March and April 2013 PwC visited the nine higher education institutions in Wales that were stand-alone bodies at the time of those visits and that provide full-time undergraduate higher education courses⁶⁴. Some further education colleges also offer higher education courses supported by direct funding from HEFCW or under franchise agreements with higher education institutions. There is also some private provision. The Open University in Wales, based in Cardiff, does not provide full-time undergraduate courses and is not regulated by HEFCW although it does receive HEFCW funding.

The institutions visited were:

- Aberystwyth University.
- Bangor University.

⁶⁴ In May 2013, the National Assembly's Research Service published a range of statistical information about higher education in Wales (National Assembly Research Service, *Higher Education in Wales in figures*, May 2013).



- Cardiff Metropolitan University.
- Cardiff University.
- Glyndŵr University – based in Wrexham.
- Swansea University.
- University of Glamorgan – including the Royal Welsh College of Music and Drama.
- University of Wales, Newport – in April 2013, the University of Glamorgan and the University of Wales, Newport merged to form the University of South Wales.
- University of Wales, Trinity Saint David (includes Swansea Metropolitan University). The University of Wales Trinity St David and Swansea Metropolitan University merged in September 2012 but continued to operate under separate names until July 2013.

These visits provided opportunities to discuss the financial health of the organisations and their financial planning and management arrangements as well as the impact of Welsh Government policy on higher education funding and student finance and HEFCW's role in distributing Welsh Government funding and regulating the higher education sector. PwC did not, however, undertake detailed audit work examining individual institutions' financial planning and management arrangements.

PwC requested and analysed specific information including institutions' financial statements, audit reports, financial forecasts, fee plans and strategic risk registers, of which some documents were provided by HEFCW.

During each of the visits, PwC interviewed senior members of the governing body and senior staff (mostly face-to-face but with some interviews being conducted by telephone). Typically, this included the Chair of the Board of Governors, the Chairs of Audit and Finance Committees, the Vice Chancellor, the Registrar and Director of Finance or their equivalents.

Other key sources of information

We and/or PwC gathered other information from:

- Interviews with other key stakeholders – including Higher Education Wales, the National Union of Students Wales, the Higher Education Funding Council for England, the Scottish Funding Council and the Open University in Wales.
- Attendance at the Welsh Higher Education Finance Directors Group – a regional committee of the British Universities Finance Directors Group.

- Examining published data, research and guidance material from other sources, including:
 - the National Audit Office report on Regulating Financial Sustainability in Higher Education [in England], published in May 2011;
 - the student finance organisations for Wales, England, Northern Ireland and Scotland;
 - the Higher Education Funding Council for England and the Scottish Funding Council;
 - the National Union of Students;
 - the Higher Education Statistics Agency;
 - the Office for Fair Access in England;
 - the Student Loans Company; and
 - the Universities and Colleges Admissions Service.

We did not seek the views of individual students as part of this study. Future National Student Survey results will provide an indication of any notable changes in students' views about their higher education experience following the introduction of higher tuition fees. This annual survey is organised by the Higher Education Funding Council for England on a UK-wide basis. Because the survey is based on final-year students, the views of those affected by the changes introduced in 2012/13 will not feed through to the survey findings until the end of the 2014/15 academic year. Students' overall satisfaction, as measured by this survey, is one of a range of key performance measures set by HEFCW for the higher education sector in Wales ([Appendix 4](#)).

In 2012, the National Union of Students published *A Pound in Your Pocket*. This review considered further and higher education students' experience of financial support and opinions about the student finance system in England. We understand that the National Union of Students Wales is undertaking similar research during autumn 2013. The National Union of Students Wales is also considering the impact of tuition fees on students' choice of institutions.

In addition, the National Assembly's Finance Committee is currently seeking the views of current and prospective students, and their families, as part of an inquiry into higher education funding.



Appendix 2 – Tuition fee and financial support arrangements for UK-domiciled full-time undergraduate students starting higher education in 2012/13

This appendix compares the tuition fees charged across Wales, England, Northern Ireland and Scotland for new full-time undergraduate students in 2012/13 and summarises the financial support arrangements for students domiciled in different parts of the UK (as determined by their home governments)⁶⁵. Some subsequent changes have been made for the 2013/14 intake, largely in relation to inflationary uplifts of loan and grant values. If students defer entry to higher education by a year having accepted a place, the fee and student support arrangements for the year of their original application apply.

In addition to the support listed below, students can access a range of supplementary grants and allowances depending on their personal circumstances, including Disabled Students' Allowances, Childcare Grant and Parents' Learning Allowance. Individual higher education institutions may offer bursaries but the value and eligibility criteria vary.

The information presented in these tables is based on the following sources:

- Student Finance Wales, *A guide to financial support for higher education students in 2012/13*, www.studentfinancewales.co.uk/portal/page?_pageid=616,6201521&_dad=portal&_schema=PORTAP (accessed in May 2013).
- Student Finance England, *A guide to financial support for new full-time students in higher education 2012/13*, www.sfengland.slc.co.uk/full-time-study/new-students/what's-available-in-201213.aspx (accessed in May 2013).
- Student Finance Northern Ireland, *A guide to financial support for higher education students in 2012/13*, www.studentfinancenir.co.uk/portal/page?_pageid=54,1266298&_dad=portal&_schema=PORTAL#secsect8 (accessed in May 2013).
- Student Awards Agency for Scotland, *Guide to student support 2012-2013*, (published in 2012 and supplied to us by the Student Awards Agency for Scotland on request).

⁶⁵ Key changes in tuition fees across higher education in Wales between 1998/99 and 2011/12 and in the financial support available for Welsh-domiciled students are summarised in: Student Loans Company, *Statistical First Release – Student loans for higher education in Wales, financial year 2012-13*, June 2013. The summary information presented in this appendix does not list each and every eligibility criteria. For example, the Tuition Fee Grant is not available to students starting an undergraduate course who already have an honours degree. Those students are eligible for other financial support in certain circumstances.

Tuition fees for new full-time UK-domiciled undergraduate students in 2012/13

Location of higher education institution	Tuition fees charged in 2012/13
Wales	Up to £9,000 for all students
England	Up to £9,000 for all students
Northern Ireland	£3,465 for Northern Irish-domiciled students Up to £9,000 for students domiciled elsewhere in the UK
Scotland	£1,820 for Scottish-domiciled students, fully paid by Scottish Government Up to £9,000 for students domiciled elsewhere in the UK

In Wales, institutions that want to charge fees of more than £4,000 a year for new UK and EU-domiciled students attending full-time undergraduate courses, are now required to have a fee plan approved by HEFCW every year.

In England, institutions that want to charge higher tuition fees (currently over £6,000 up to the maximum of £9,000 for full-time undergraduates) are required to have an 'access agreement' approved by the Office For Fair Access. While the maximum fee is the same for all UK and EU-domiciled students, the legal requirement for an access agreement relates only to English-domiciled students. However, we understand that many institutions will include reference to other students in these agreements.

There is no equivalent fee planning process in Scotland, as Scottish and EU-domiciled students studying in Scotland do not have to pay their own tuition fees. The Scottish Funding Council monitors widening access targets which, from 2012/13, have been included in outcome agreements negotiated with institutions. Scottish institutions can choose the level of fees they charge to students from the rest of the UK but agreed to a voluntary cap at £9,000 a year from 2012/13. The Post-16 Education (Scotland) Act 2013 makes provision for the statutory capping of fees for these students, at a level equivalent to the maximum fees that can be charged elsewhere in the UK, but the provisions in the Act have not yet been brought into force through secondary legislation.

In September 2011, the Northern Ireland Executive announced that it would allow the two higher education institutions in Northern Ireland to set for themselves the fees they charge to students from the rest of the UK, but that it would not expect these to exceed £9,000 per year. Fees for students from Northern Ireland and the EU who study in Northern Ireland were subject to a cap set at £3,465 for 2012/13.



Financial support available to new Welsh-domiciled full-time undergraduate students in 2012/13

	Value	Eligibility
Tuition fee support		
Tuition Fee Loan	£3,465	All students who pay fees
Tuition Fee Grant	Up to £5,535 <i>The difference between the tuition fee loan and the actual fee charged by institutions – after individual bursaries are accounted for</i>	All students who pay fees
Maintenance and living cost support		
Assembly Learning Grant	Up to £5,000	Means-tested: <ul style="list-style-type: none"> • Household income of £18,370 or less = full grant • Between £18,371 and £50,020 = partial grant • Over £50,020 = no grant
Special Support Grant	Up to £5,000	Means-tested as per Assembly Learning Grant Available if certain criteria met eg. lone parent, have certain disabilities, over 60 Cannot receive both Assembly Learning Grant and Special Support Grant
Maintenance Loan	<ul style="list-style-type: none"> • Living away from home and studying in London: up to £6,648 • Living away from home and studying elsewhere in the UK: up to £4,745 • Living at home: up to £3,673 <i>Loan value is reduced by 60p for every £1 of Assembly Learning Grant received up to a maximum reduction of £2,844 (same arrangement does not apply to Special Support Grant)</i>	Means-tested: <ul style="list-style-type: none"> • Household incomes above £50,020 only eligible for basic amount equal to 75 per cent of maximum loan available

Financial support available to new English-domiciled full-time undergraduate students in 2012/13

	Value	Eligibility
Tuition fee support		
Tuition Fee Loan	Up to £9,000	All students who pay fees
Maintenance and living cost support		
Maintenance Grant	Up to £3,250	Means-tested: <ul style="list-style-type: none"> • Household income of £25,000 or less = full grant • Between £25,000 and £42,600 = partial grant • Over £42,600 = no grant
Special Support Grant	Up to £3,250	Means-tested Eligible if certain criteria met eg. lone parent, have certain disabilities, over 60 Cannot receive both maintenance grant and special support grant
Maintenance Loan	<ul style="list-style-type: none"> • Living away from home and studying in London: up to £7,675 • Living away from home and studying elsewhere in the UK: up to £5,500 • Living at home: up to £4,375 <p><i>Loan value is reduced by 50p for every £1 of Maintenance Grant received (same arrangement does not apply to Special Support Grant)</i></p>	Means-tested Household incomes above higher limit (variable depending where student lives and studies) only eligible for basic amount equal to 65 per cent of loan available



Financial support available to new Northern Irish-domiciled full-time undergraduate students in 2012/13

	Value	Eligibility
Tuition fee support		
Tuition Fee Loan	<ul style="list-style-type: none"> £3,465 if studying in Northern Ireland Up to £9,000 if studying outside Northern Ireland 	All students who pay fees
Maintenance and living cost support		
Maintenance Grant	Up to £3,475	Means-tested: <ul style="list-style-type: none"> Household income of £19,203 or less = full grant Between £19,203 and £41,065 = partial grant Over £41,065 = no grant
Special Support Grant	Up to £3,475	Means-tested. Eligible if certain criteria met eg. lone parent, have certain disabilities, over 60 Cannot receive both maintenance grant and special support grant
Maintenance Loan	<ul style="list-style-type: none"> Living away from home and studying in London: up to £6,780 Living away from home and studying elsewhere in the UK: up to £4,840 Living at home: up to £3,750 <p><i>Loan reduced if maintenance grant is received</i></p>	Means-tested: <ul style="list-style-type: none"> Household incomes above £41,065 only eligible for basic amount

Financial support available to new Scottish-domiciled full-time undergraduate students in 2012/13

	Value	Eligibility
Tuition fee support		
Tuition Fee Loan	Up to £9,000	All students who pay fees
Maintenance and living cost support		
Young Students' Bursary	Up to £2,640	Means-tested: <ul style="list-style-type: none"> • Household income of £19,310 or less = full grant • Between £19,310 and £34,195 = partial grant • Over £34,195 = no grant Must be studying in Scotland Must be aged 25 or under on first day of first academic year
Independent Students' Bursary	Up to £1,000	Means-tested: <ul style="list-style-type: none"> • Household income of £19,310 or less = full grant • Between £19,310 and £34,195 = partial grant • Over £34,195 = no grant Must be studying in Scotland Must be aged over 25 on first day of first academic year or meet other independence criteria
Maintenance Loan	Living away from home and studying in London: up to £7,500 Living away from home and studying elsewhere in the UK: up to £6,380 Living at home: up to £5,395	Means-tested: <ul style="list-style-type: none"> • Household incomes above higher limit (which varies depending where student lives and studies) only eligible for basic amount equal to £940 away from home or £620 at home Loan reduced by the amount of bursaries received
Students' Outside Scotland Bursary	Up to £2,150	Means-tested: <ul style="list-style-type: none"> • Household income of £19,310 or less = full grant • Between £19,310 and £34,195 = partial grant • Over £34,195 = no grant Must be studying outside Scotland



Current student loan repayment arrangements for new UK-domiciled full-time undergraduate students in 2012/13

Domicile of student	Repayments	Interest
Wales	<p>Nine per cent of earnings over £21,000</p> <p>Partial cancellation of £1,500 of maintenance loan once first repayment is made</p>	<p>During study, Retail Price Index plus three per cent</p> <p>After study income dependent, from Retail Price Index levels up to Retail Price Index plus three per cent</p>
England	As in Wales, but without partial cancellation of maintenance loan	As in Wales
Northern Ireland	Nine per cent of earnings over £16,365	Set annually each September – 1.5 per cent in 2012/13
Scotland	Nine per cent of earnings over £16,365	Set annually each September – 1.5 per cent in 2012/13

Appendix 3 – Outcomes of the ‘Strategic Reallocation of Numbers’ and ‘Maximum Tuition Fee Grant’ allocations for Welsh higher education institutions in 2013/14

The proposed change in the maximum number of new full-time undergraduate and PGCE students for 2013/14 from HEFCW’s ‘Strategic Reallocation of Numbers’ process formed the basis of calculations for the ‘Maximum Fee Grant’ limit that HEFCW subsequently applied to institutions in Wales.

Strategic Reallocation of Numbers for 2013/14

Institution	2012/13 maximum student number – new entrants ¹	2013/14 maximum student number – new entrants	Change between 2012/13 and 2013/14
University of Glamorgan	4,121	4,932	811
Aberystwyth University	2,489	1,976	-513
Bangor University	2,136	1,935	-201
Cardiff University	4,461	4,524	63 ²
University of Wales, Trinity Saint David	1,075	1,004 ³	-71
Swansea University	2,548	2,274	-274
Cardiff Metropolitan University	2,818	2,975	157
University of Wales, Newport	1,520	1,209	-311
Glyndŵr University	1,118	1,230	112
Swansea Metropolitan University	1,794	2,154	360
Total	24,080	24,213	133

Notes

- 1 The student numbers shown are for HEFCW-fundable full-time undergraduate and PGCE new entrants. The 365 places allocated to further education institutions providing HEFCW funded courses are excluded, as these were not part of the reallocation of numbers (HEFCW Circular W12/14HE, *Strategic Reallocation of Student Numbers 2013/14 – Outcomes*, April 2012).
- 2 The reallocation of numbers increased Cardiff University’s maximum student number by 130 places. However, HEFCW reported that the university opted to relinquish 67 places because it did not wish to increase student numbers significantly.
- 3 The allocation for the University of Wales, Trinity Saint David includes 200 additional new entrant student numbers in recognition of its merger with Swansea Metropolitan University

Source: Data provided by HEFCW



Maximum Tuition Fee Grant allocations for 2013/14

Institution	Maximum Tuition Fee Grant (£ million) ¹
University of Glamorgan	21.43
Aberystwyth University	9.69
Bangor University	8.66
Cardiff University	19.89
University of Wales, Trinity Saint David	14.595
Swansea University	13.750
Cardiff Metropolitan University	13.96
University of Wales, Newport	6.86
Glyndŵr University	5.20
Further education institutions	2.54
Total	116.57

Note

- ¹ These figures include a five per cent tolerance level above a basic fee grant limit. No penalty will be applied if an institution in total claims fee grants up to this limit. The limits apply to new entrants and students in their second year in 2013/14.

Source: HEFCW Circular W13/09HE, HEFCW's Funding Allocations 2013/14, April 2013

Appendix 4 – Performance against higher education sector strategic targets, 2008/09 to 2011/12

These are the targets set for the sector in HEFCW's corporate strategy for 2010-11 to 2012-13, which reflect the Welsh Government's policy objectives for higher education in Wales as set out previously in the November 2009 strategy document, *For Our Future - The 21st Century Higher Education Strategy and Plan for Wales*. In May 2013, HEFCW published a new three-year corporate strategy. The new strategy includes some updates to existing targets and some relevant additional measures, for example about quality standards and research excellence across higher education. In June 2013, the Welsh Government published a new *Policy Statement on Higher Education*.

Strategic Measure	2008/09 (baseline)	2009/10	2010/11	2011/12
<p>1 Widening access – increase in proportion of 'Communities First' students</p> <p>A 10 per cent rise in the proportion of all Welsh-domiciled students studying higher education courses at higher education institutions and further education institutions in Wales who are domiciled in the Welsh Communities First areas. From 15.6 per cent in 2008/09 to 17.2 per cent in 2012/13¹.</p>	15.6%	16.2%	16.5%	16.9%
<p>2 Increase in module completion rates</p> <p>A 2.7 per cent rise in the module completion rate for undergraduate enrolments in Welsh higher education institutions. From 87.6 per cent in 2008/09 to 90 per cent in 2012/13².</p>	87.6%	90.1%	92.5%	93.7%
<p>3 National Student Survey 'overall satisfaction' scores</p> <p>Three-year rolling average score for Wales in the National Student Survey 'overall satisfaction' question will be equal to, or greater than the UK comparative score³.</p>	Wales: 83.3% UK: 81.7%	Wales: 83.0% UK: 82.0%	Wales: 82.7% UK: 82.3%	Wales: 83.0% UK: 83.3%



Strategic Measure	2008/09 (baseline)	2009/10	2010/11	2011/12
<p>4 Increase in Welsh-medium study</p> <p>The number of Welsh-domiciled students at Welsh higher education institutions and further education institutions undertaking some element of their course through the medium of Welsh will rise from 4,586 in 2008/09 to 5,509 in 2012/13⁴.</p>	4,586	4,612	4,690	4,328
<p>5 Growth in overseas students</p> <p>The percentage year-on-year growth in the number of overseas students attending higher education courses in Welsh higher education institutions will be equal to, or greater than, the comparable figure for UK institutions (excluding London and the South East of England)⁵.</p>	Wales: 15.1% UK: 10.4%	Wales: 26.7% UK: 11.9%	Wales: 16.4% UK: 8.5%	Wales: -1.5% UK: 2.6%
<p>6 Employability performance</p> <p>The proportion of leavers from Welsh higher education institutions obtaining first degrees from full-time courses who were employed, studying, or both employed and studying, six months after leaving, will be equal to, or greater than the UK proportion by 2012/13⁶.</p>	Wales: 91.2% UK: 89.9%	Wales: 91.9% UK: 90.4%	Wales: 91.0% UK: 90.3%	Wales: 91.6% UK: 90.8%
<p>7 Improvements in participation in higher education from the five Heads of the Valleys unitary authorities</p> <p>The participation rate within Welsh higher education providers of students from the five unitary authorities covered by the Universities Heads of the Valleys Institute will rise by eight per cent to the 2008/09 Welsh national average by 2012/13 (from 2.5% to 2.7%)⁷.</p>	2.5%	2.5%	2.5%	Figure not published at the time of this report
<p>8 Increase in part-time students</p> <p>The total number of part-time students studying higher education courses in higher education institutions and further education institutions in Wales will rise from 54,714 in 2008/09 to 59,000 in 2012/13⁸.</p>	54,714	50,243	50,020	49,136

Strategic Measure	2008/09 (baseline)	2009/10	2010/11	2011/12
<p>9 Knowledge transfer: spin-out company performance</p> <p>The number of spin-off companies still active which have survived at least three years will increase by 10 per cent. From 252 in 2008/09 to 277 in 2012/13⁹.</p>	252	301	376	445
<p>10 Growth in research council funding</p> <p>The annual percentage growth in income for Welsh higher education institutions from research councils will be equal to, or greater than, the comparable figure for UK higher education institutions (excluding the 'golden triangle' of Oxford, Cambridge and London)¹⁰.</p>	Wales: 17.4% UK: 13.9%	Wales: 3.0% UK: 3.1%	Wales: 1.2% UK: -2.7%	Wales: -3.6% UK: -4.0%
<p>11 (a) Reconfiguration and collaboration – annual income target</p> <p>By 2012/13, at least 75 per cent of the Welsh higher education institutions will have an annual income in excess of the UK median¹¹.</p>	36% (4 of 11)	45% (5 of 11)	40% (4 of 10)	40% (4 of 10)
<p>11 (b) Reconfiguration and collaboration – annual income target</p> <p>By 2012/13, no Welsh higher education institutions will be in the bottom quartile of annual income for UK higher education institutions¹¹.</p>	36% (4 of 11)	36% (4 of 11)	30% (3 of 10)	30% (3 of 10)
<p>12 Governance: no institution at 'high risk'</p> <p>No higher education institution to be classified as 'high risk' under HEFCW's institutional risk review processes¹².</p>	0	0	0	0



Notes

- 1 Communities First is a Welsh Government programme that aims to support people in the most deprived areas of Wales. Areas are designated for Communities First funding according to measures of deprivation. All modes, levels and years of study are included in the performance indicator. Data is taken from the Higher Education Statistics Agency Student Record and Lifelong Learning Wales Record.
- 2 Full-time, sandwich and part-time undergraduate courses are included. Data is taken from the Higher Education Statistics Agency Student Record.
- 3 For this indicator, the Open University is not included in the data for Welsh institutions.
- 4 The measure includes full-time, part-time, undergraduate and postgraduate students. It includes students of the Open University in Wales. Data is taken from the Higher Education Statistics Agency Student Record and the Higher Education Students Early Statistics Survey for further education institutions.
- 5 For the purposes of this measure, overseas students are those not domiciled in the EU, the Channel Islands or the Isle of Man and include incoming exchange students. Data is taken from the Higher Education Statistics Agency Student Record. For this indicator, the Open University is not included in the data for Welsh institutions.
- 6 The data source for this measure is the Higher Education Statistics Agency Destination of Leavers from Higher Education survey. For this indicator, the Open University is not included in the data for Welsh institutions.
- 7 Universities Heads of the Valleys Institute (UHOVI) is an education initiative offering a range of higher education courses to people living or working in Caerphilly, Blaenau Gwent, Torfaen, Merthyr Tydfil and Rhondda Cynon Taf. It was set up as a partnership between the University of Wales, Newport and the University of Glamorgan (now the University of South Wales). The measure includes students from the UHOVI areas who study at any institution in Wales.
- 8 The measure includes undergraduate and postgraduate students. Where a student is enrolled on more than one course, the student is only counted once. Data is taken from the Higher Education Statistics Agency Student Record and Lifelong Learning Wales Record. The figures for Wales include the Open University in Wales which, over the same period and in contrast to the sector-wide trend, saw its part-time student numbers increase by 16 per cent from 7,689 to 8,938.
- 9 Data is taken from the Higher Education Business and Community Interaction Survey. The Open University is not included in the data for Welsh institutions for this indicator.
- 10 The 'golden triangle' institutions are Oxford, Cambridge, Imperial, University College London, King's College London and London School of Economics. Data is taken from the Higher Education Statistics Agency Finance Statistics Record. For this indicator, the Open University is not included in the data for Welsh institutions.
- 11 The number of higher education institutions in Wales reduced from 11 to 10 in 2010/11 following the merger of the University of Wales, Lampeter and Trinity University College to form the University of Wales, Trinity Saint David. The Open University in Wales is not included in this indicator. Data is taken from the Higher Education Statistics Agency Finance Statistics Record.
- 12 This measure refers only to higher education institutions in Wales covered by HEFCW's risk review process (see paragraphs 2.77 to 2.84 in the main body of this report).

Source: Information and data provided by HEFCW

Appendix 5 – Supporting financial data for Welsh higher education institutions, 2010/11 and 2011/12

	Total income (£ million)		Historic cost surplus of income over expenditure after tax (£ million)		Historic cost surplus of income over expenditure after tax as a % of annual income	
	2010/11	2011/12	2010/11	2011/12	2010/11	2011/12
Aberystwyth University	118.6	120.4	3.05	2.61	2.6%	2.2%
Bangor University	131.2	131.5	2.12	-0.97	1.6%	-0.7%
Cardiff Metropolitan University	83.2	82.2	6.53	5.09	7.9%	6.2%
Cardiff University	413.0	425.5	13.94	11.82	3.4%	2.8%
University of Glamorgan	144.2	148.9	1.92	3.76	1.3%	2.5%
Glyndŵr University	44.4	48.3	1.74	1.68	3.9%	3.5%
University of Wales, Newport	49.7	50.5	10.50	2.54	21.1%	5.0%
Swansea University	172.5	178.3	7.88	5.41	4.6%	3.0%
Swansea Metropolitan University	36.6	37.4	6.86	8.10	18.8%	21.6%
University of Wales, Trinity Saint David	34.5	37.1	0.36	1.44	1.0%	3.9%
Total or average	1,227.8	1,260.1	54.89	41.47	4.5%	3.3%



	The number of calendar days that cash resources would cover expenditure ¹		Discretionary reserves as a % of annual income ²		Long-term external borrowings held as a % of annual income	
	2010/11	2011/12	2010/11	2011/12	2010/11	2011/12
Aberystwyth University	45	34	41.9%	42.9%	0.0%	0.0%
Bangor University	104	61	33.7%	31.9%	10.3%	9.1%
Cardiff Metropolitan University	109	153	45.5%	52.9%	36.6%	36.4%
Cardiff University	165	162	52.5%	53.3%	5.7%	5.3%
University of Glamorgan	77	100	48.7%	51.2%	35.9%	34.9%
Glyndŵr University	58	61	44.2%	44.6%	0.0%	0.0%
University of Wales, Newport	134	174	74.6%	79.6%	47.1%	45.9%
Swansea University	87	74	28.8%	30.8%	1.6%	1.4%
Swansea Metropolitan University	398	502	114.9%	135.5%	0.0%	0.0%
University of Wales, Trinity Saint David	227	175	56.1%	56.5%	1.8%	0.7%
Total or average	124	124	47.8%	49.9%	11.9%	11.3%

Note

1 This measure of cash resources reflects a snapshot of the position at the year-end.

2 The discretionary reserve figures shown here are based on general reserves and expendable endowment funds and exclude the impact of measurable pension fund deficits.

Source: Wales Audit Office review of institutions' audited financial statements and information supplied by HEFCW