

Owen Evans
Cyfarwyddwr Cyffredinol • Director General

Yr Adran Addysg a Sgiliau
Department for Education and Skills



Llywodraeth Cymru
Welsh Government

Mr Darren Millar AM
Chair
Public Accounts Committee
National Assembly for Wales

4 June, 2014

Dear Darren

WAO report on Higher Education Finances

Thank you for your letter dated 7 May seeking a response to the Welsh Audit office Report on Higher Education Finances.

As outlined by the Minister for Education and Skills in his press release dated the 21 November 2013, the Welsh Government welcomed the WAO's findings that the Finances of the Welsh Higher Education Institutions are in sound financial health and that both Welsh Government and Higher Education Funding Council for Wales (HEFCW) have implemented policy around tuition fees effectively

The evidence contained in the report confirms that the tuition fee policy is affordable and sustainable and the WAO has also confirmed that HE institutions in Wales will continue to benefit from higher levels of income as a result of the reforms, while at the same time students who live in Wales will accrue significantly lower levels of debt than their counterparts in England.

The independent review of Higher Education Funding and Student Finance led by Professor Sir Ian Diamond met for the first time in April. I can confirm that the panel has received a copy of the WAO report and that I will arrange for the panel to receive a copy of the Welsh Government response to the findings and recommendations for consideration

Please find attached a copy of the Welsh Government's response to each of the relevant recommendations contained in the WAO report. Please note that I am expecting the Higher Education Funding Council for Wales to respond to recommendations 7 and 8.

.../.2

In addition, I can also confirm that the Minister for Education and Skills will respond to the Finance Committee's report on Higher Education Funding as requested by the 26 June.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Owen', followed by a period.

Owen Evans

Welsh Audit Office Report on Higher Education Finances

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.

Recommendation 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;
- 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.

Welsh Government response

Accepted – The review panel has already received a copy of the report. In addition, the Minister for Education and Skills will formally write to the chair of the panel informing him of the Welsh Government's response and requesting that the panel consider the issues identified when forming its own recommendations to the Minister in 2016.

Recommendation 2

The Welsh Government believes that five percent 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:

- 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.

Welsh Government response

Accepted

- the Welsh Government has asked the NUS (Wales) to undertake work to improve our understanding of why some students are not claiming the tuition fee grant. In addition, we have asked them to widen the scope of the work to include all Welsh Government grants (means tested and non means tested).
- we will formally request that the Student Loans Company undertake a review of its communication strategy (including the results of stakeholder feedback and customer satisfaction) during the first year of the modernised Student Finance Wales service to ensure that messages are communicated effectively.
- The Knowledge and Analytical Services Department of the Welsh Government will develop a system that will enable some further detailed analysis of areas of low take-up rates.

Recommendation 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.

Welsh Government response

Accepted - Student finance policy is underpinned by a sophisticated financial model which takes into account the current financial provision set aside for higher education in Wales as well as other sources of institutional income such as tuition fees. Forecasts are reviewed regularly as new or more robust data becomes available. Updated forecasts are produced by the Knowledge and Analytical Services Department at regular points during the financial year to ensure that the latest information regarding student behaviour, demographic trends, take-up rates, socio economic factors and other relevant data are taken into account.

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

In addition to discussions at the SSFUG, the high-level modelling assumptions are discussed at the Higher Education Funding and Student Finance Project Board. These Boards are made up of Welsh Government officials and key delivery partners including the Student Loans Company, HEFCW, Higher Education Wales and the Welsh Local Government Association.

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

Recommendation 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.

Welsh Government response

Accepted

- the Welsh Government has worked with the Students Loans Company to draft, review and publish a suite of guidance documents for Wales. These documents are called the Guidance for Assessors and provide detailed explanations and scenarios of policy and assessment requirements. The SLC

has confirmed that it does not require any further guidance from the Welsh Government.

- HEFCW have agreed to be a member of the Student Finance Wales Modernisation project Board.

Recommendation 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.

Welsh Government response

Accepted

- We will continue to engage with HEFCW in the implementation and development of higher education policy. As part of the implementation plan for the Higher Education Bill we will develop a plan that will include joint working with the council and key stakeholders.
- We are working with HEFCW to develop a protocol for the Council's future engagement in policy making.
- We will ensure that the new regulatory framework and the resources invested therein will be proportionate to the size and scale of the HE sector in Wales. The HE bill was presented to the Assembly on the 19 May.

Recommendation 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’.

Welsh Government response

Accepted

- We will consider whether the targets set by HEFCW in its corporate strategy are consistent with the aims of the Higher Education Policy Statement as part of the normal performance management and governance structure.
- We have made it clear to the Council that part time HE remains a Ministerial priority for the Welsh Government. We will consider the findings of this report alongside the Council’s position statement on part time provision before evaluating the adequacy of the targets.

Recommendation 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.

Recommendation 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.