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Contents

1. Introduction	2
2. Our Perspective	3
3. A Priority Sector	5
4. Research and Knowledge Transfer	6
5. High Level Skills	8
6. Outreach, Student Drop-out, and Work Based Learning	9
7. Employability	13
8. Efficiency, Cost-Effectiveness and Re-structuring	14
9. Funding Models	18
10. Managing Performance	20

1. Introduction

1. The Wales Employment and Skills Board (WESB) greatly welcome the principles and messages outlined in '**For our Future: the 21st Century Higher Education Strategy and Plan for Wales**' the Welsh Assembly Government's new strategic framework for Higher Education (HE). The framework recognises both the strengths and contributions of HE and the need for significant change if it is to contribute yet more fully to economic growth and social justice in Wales. The importance of HE to Wales was further underlined by the seminal statement by the Deputy First Minister on 13th October 2009 concerning the Economic Renewal Programme.

2. WESB recognises and applauds the contribution that HE already makes and the commitment which underpins it. However, we believe that there needs to be a more radical and urgent approach to changing, even transforming, the performance of Welsh HE in its impact on the Welsh economy. *The measure of the need is the distance yet to be travelled by the economy rather than the present successes of Welsh HE.*

3. For the HE strategy to make a substantial impact it will have to be translated into bold and specific proposals for change. Choosing the right priorities will become increasingly fundamental to our performance as a nation. We have to recognise that Wales and its HE system simply cannot do everything. As one contribution to this process of implementation WESB offers the following thoughts and suggestions.

4. For ease of presentation we will refer throughout to employer organisations as if they were in the private/commercial sector. As we underlined in our first annual report, '**A Wales that Works**', the private sector must be very strongly supported if the economy is to deliver the extra jobs and higher GVA (Gross Value Added) that the Welsh Assembly Government rightly sees as essential. However, all that we say is equally applicable to the relationship between HE and the public and not-for – profit sectors and we treat these as every bit as important to the wider good.

2. Our Perspective

5. The WESB perspective on HE is unequivocally that of employer organisations and the needs of a much improved economy. This is a distinctive view point that does not always receive the attention that it deserves. Given the past and current performance of our economy and the range of social ills that are worsened by poor economic performance, we believe it is worthy of special attention.

6. WESB fully accepts that HE is by no means only about the economy. It is about individual opportunity, social justice and the strength and quality of our culture and national identity. WESB also accepts that much HE funding is non-governmental and that even Welsh Assembly Government funding should not be only about the needs of the economy. But it believes that searching questions do need to be asked from the perspective of driving forward the Welsh economy and that a substantial part of Welsh Assembly Government funding of HE should be carefully targeted to this end. WESB would also argue that this perspective is itself supportive of the wider contributions that HE can make: economic growth and higher GVA, for example, mean more jobs, more individual opportunity, lower wage/child poverty and improved health.

7. We saw much merit in the broad principles outlined in the recent Review of Higher Education in Wales (RHEW) Phase 2 and endorse much of its analysis. In particular we agree that:

“Economic success is enhanced by high skills, through programmes designed and delivered in collaboration with employers, and targeting areas of agreed strategic need”
(RHEW p 5)

8. However, from an employer perspective, WESB would ask one question which was not apparent in the RHEW report: ***what is the business plan for HE that reflects the interests of “Wales plc” and the Welsh economy?*** This is to frame our concerns in an apparently crude and narrow way, but it is essential to put the issues into sharp relief.

9. There is a profound need for such a business plan. It is now vital, within a post-recession and post-Leitch (Leitch report ‘*Prosperity for all in the global economy – world class skills report*’) era, for HE performance to be assessed comparatively against the needs of the Welsh economy. Such a plan would, above all, be about whole government priorities in the use of Welsh Assembly Government spend, the incentives structure created for HEIs, and about key

relationships/partnerships. The culture and leadership of HE are important, but they can in large measure be influenced through these other dimensions of the transformation that we believe is necessary.

10. A business plan for HE in respect of the economy has to begin with just three core questions:

- How fully and adequately does HE contribute to economic growth, the expansion of job opportunities, achievement of higher GVA, and the delivery of needed skills?
- How cost effective is HE, generally and in its impact on the economy (on the grounds that all expenditure has an opportunity cost and efficiency is therefore a moral not merely a technical imperative given that public funds are limited – and will become far more so)?
- How can HE be more successful in winning the hearts, minds and engagement of employers based on its impact on national and regional

3. A Priority Sector

11. As a first step we believe *HE should now be recognised categorically as a key wealth creating force in its own right and not merely as a supply side service.* In different but important ways the same is true of FE and there is a powerful case for much more, well co-ordinated, work across the two systems. For example, one measure of the responsiveness of HE/FE to employers' needs is the volume of full cost recovery work – that paid for wholly by employers. We see a need to expand such work significantly within, but also across, both HE and FE. Employers' needs do not miraculously fall into either HE or FE; they frequently span both. The HE and FE systems also tend to have different, but complementary, networks and relationships with employers. What employers and the economy need is cross fertilisation and integration between these sectors for maximum advantage. As in many areas of government, divisions are generated by separate funding and control regimes where integrated action and maximum impact should be the watch word.

12. A better integrated HE/FE sector should be seen as a key “economic partner” for employers and government; but HE/FE is itself less than well served in this role. It can be difficult to establish precisely what it is that employers and the economy most need. Both the Department for Children, Education Lifelong Learning and Skills (DCELLS) and the Department for Economy & Transport (DE & T) need, in concert, to be yet more fully involved in shaping the sectors' understanding of what it can contribute.

13. International markets are also important to both FE – in the case of teaching – and HE in teaching and research. As the double dip recession hits the public sector in 2010 and beyond, the revenue from international students will become one of the few resource streams that can help offset significant cumulative cuts (estimated by many university leaders as 15%). Moreover, the spending power that international students bring to regional economies underlines the importance of treating HE/FE as a key economic sector and suggests that international recruitment should be a whole-government priority. It is a significant Welsh export with significance that extends across Welsh Assembly Government departments.

WESB therefore recommend that:

- HE and FE, taken together, should be recognised as one of just a small number of priority sectors within the Welsh Assembly Government's economic strategy;
- the relationship between HE, government and employers should include high quality intelligence on what an integrated HE/FE sector can most usefully deliver; and
- international student recruitment and research activity be recognised and supported as priority developments which benefit regional and national economies as well as contribute to the viability of institutions.

4. Research and Knowledge Transfer

14. Much has been done to increase the contribution of HE through Knowledge Transfer Partnerships (KTP) in Wales, but the state of the economy is such that urgent and considerable improvement is still needed.

15. The first issue is that of the “fit” between HE and the economy. Given its nature, the Welsh economy has a limited “absorptive capacity” – much research within Welsh HE may not relate to areas of economic strength, nor may it yield potential applications for future economic growth. Equally, although research performance in Welsh HE has improved, there are only a limited number of centres of high excellence that do relate closely to the economy. Where possible, new economic strengths should be developed around areas of existing research excellence, but by far the *greater part of the task is to grow research capability in relevant areas through additional, more efficient, or re-aligned funding.*

16. Wales does not yet have a science base fully able to deliver the scale of relevant research and knowledge transfer needed to transform our economic fortunes. In all forms of research funding – from UK Research Councils, private companies, public sector and governmental bodies – Wales has tended to lag behind the best, or even the average, in the UK. An increase in the quantum is needed as a matter of some urgency. In addition, the kite mark for successive Research Assessment Exercises (RAE) – and most UK Research Council funding – has been that which is publishable in international journals. Research driven by these forms of funding is not likely to map neatly onto the needs of a small country and economy.

17. While private companies and public bodies do fund applied research and knowledge transfer, they do not do so on the required scale – and companies cannot in the nature of things fund all the applied research needed to take the Welsh economy into new areas of expertise and competence. In particular, while they need not do so across the board, the very strong guidance now given to HEIs that they should charge full economic overheads raises the potential cost of research quite dramatically. All but the largest companies – few of which have head offices in Wales – are faced by a significant disincentive to invest in research, especially when faced by uncertain markets. WESB recognises the many efforts made to fill these gaps, but believes there remains an overwhelming need to find new, additional research funds with which to launch a substantial, well targeted, “*Applied Research Fund for Wales*” which would among other things tackle the disincentive effect of full economic cost overhead recovery – especially for SMEs (small and medium businesses). *The fund would only support research developed collaboratively with companies/employers.*

18. The purpose of the fund would be:

- to edge the body of research undertaken in Wales closer towards a critical mass;
- to fill the gaps between “blue skies” research and pure commercialisation;

- to better weight research spend towards the particular needs of the Welsh economy; and
- to promote more productive interaction between research, innovation and commercialisation across research led universities, “new” universities, Further Education Colleges (FECs) and business/public service organisations.

19. Staff exchange, internships and joint projects that spanned these boundaries would be key objectives. WESB would see this as a whole government initiative or at minimum a DE&T/DCELLS partnership. WESB would further see a powerful link to private and public employers in the governance and the priorities underpinning the work funded by such a body.

20. It is not for us to say how such funding should be found, but we would ask how much is available across the whole of government for research as well as consultancy, and whether all or much of this could be channelled through a single fund that could be used strategically to strengthen the science base in Wales while also meeting government needs.

We recommend:

- a whole Government approach to resourcing – with new, additional funds – and in broad terms guiding a substantial “Applied Research Fund for Wales” capable of promoting applied research and development activity (collaboratively between HEIs, other relevant bodies, and companies) of direct benefit to the economy, especially in companies and organisations that would be deterred by the full overhead costing model.

21. One measure of the “fit” between HE and the economy is the scale and depth of full cost recovery work undertaken by HE. Because such work is funded by employer organisations it corresponds directly with their perceived needs. Welsh HE does well comparatively in this field, but much more is needed given the size of the transformation needed in the economy. There is also a need substantially to grow such work in FECs and to better link their strengths with those of HE.

We recommend that:

- the Welsh Assembly Government and HEFCW significantly increase financial support for and recognition of full cost recovery work (through net additional or re-aligned funding);
- full cost recovery work in FE be incentivised through significant funding designed to build and reward such work on the HE model; and
- the Welsh Assembly Government align these HE and FE funding streams and otherwise promote joint full cost recovery work across the whole of the HE/FE sector.

5. High Level Skills

22. WESB accepts that undergraduate study – and funding – is largely driven by student demand. As with research, however, the Welsh economy cannot absorb all the high level skills produced in Welsh HE and the economy also needs some skills that are not generated in Wales.

23. We endorse efforts to strengthen disciplines and demand in Science, Technology, Engineering and Mathematic (STEM) and other areas where shortages at undergraduate level may hold back the economy. However, WESB urges that careful consideration also be given to the balance of funding between undergraduate and post-graduate so as to expand the range of post-graduate work – both part and full time – of direct relevance to the Welsh economy.

24. What we have in mind is a significant corpus of studentships primarily focussed on taught masters programmes tied directly to employer bodies as well as to Welsh HEIs. They would build in a sustainable way on the recently announced all Wales HEW Masters and Doctorate European Social Fund (ESF) and would be focused on areas of present shortage and future potential advance (in the public and not-for-profit, but especially the private sectors). Funded with a degree of generosity, they would attract and/or retain very able people for Wales at a time when graduates increasingly need, but cannot afford, to differentiate themselves in an enlarged pool of graduate labour and when employers need to enhance the leading edge skills of their workforce. While full time studentships would attract the very best graduates from far and wide as well as from Welsh HE, part-time provision is important if we are to advance the skills of the existing workforce. We believe the ESRC has full-time studentships of this kind that are not fully used and in this case we see a need better to advertise these opportunities to students and companies to the benefit of Wales. We are not aware of the position across all research councils.

25. We see a similar need and opportunity at the post-doctoral level. Post-doctoral work is by definition at the leading edge and it can build – within the work context – on the comparatively more expensive/uncertain investment in doctoral level work.

We recommend:

- a joint DCELLS/DE&T strategy to achieve a critical mass of taught postgraduate studentships tied to Welsh companies, and public/voluntary sector bodies, both by sign-posting existing opportunities and investing significantly in their expansion in key areas of the economy;
- a significant investment in post-doctoral grants tied to Welsh companies; and
- that in both cases a considered balance be struck between full and part-time.

6. Outreach, Student Drop-out and Work Based Learning

26. Current levels of student drop-out raise two concerns: it is indicative of a probable inefficiency in the use of resources (even students who drop out may have benefitted and it would therefore be wrong to be too categorical); but it may also indicate a poor experience, even one of failure. In so far as this affects students from non-traditional backgrounds, it may be highly de-motivating and harmful. The laudable aim of widening participation carries a moral rider: it must not be allowed Current levels of student drop-out raise two concerns: it is indicative of a probable inefficiency in the use of resources (even students who drop out may have benefitted and it would therefore be wrong to be too categorical); but it may also indicate a poor experience, even one of failure. In so far as this affects students from non-traditional backgrounds, it may be highly de-motivating and harmful. The laudable aim of widening participation carries a moral rider: it must not be allowed to generate a sense of failure among the most vulnerable.

27. Analysis is needed of the true costs to the sector and the economy of student drop-out, especially if empty second and third year places reduce efficiency. WESB notes that this is a sensitive matter because institutions with relatively high access profiles inevitably have higher drop-out rates based on the more heterogeneous learner populations that they serve. It is important therefore to find ways of improving retention without cutting back on effective access.

28. It is essential to fund outcomes, not mere activity, but it is also essential to prevent institutions focussing on the “low hanging fruit” – the students who are easy to recruit and most likely to succeed. One key development would be to use Key Performance Indicators based on sensitive measures of “distance travelled” and “value added” (as set out in our report on key performance indicators for employment and skills, submitted by WESB to Ministers in July 2009), as opposed to end qualification. Non-conventional and innovative outreach work must be afforded room in which to flourish.

29. More fundamentally from an employer perspective, however, WESB emphasises the need to anticipate and prepare for the changing demographic profile of current and future workforces. The approach to widening participation should focus far more on work based learning and on the expansion of **adult** progression and an encouragement for young people to think of progression to HE during – rather than before – their working lives as a normal and attractive proposition. This would be a viable way of widening opportunities whilst meeting the undoubted need to improve the skills of the already employed work force. Indeed, in the case of outreach to low participation groups it might be the most likely to lead to valued outcomes.

30. One of the greatest regrets expressed by employers is the loss of “sandwich courses”: In so far as it is possible, policies should be developed to re-invigorate this form of study. However, the causes of its decline are doubtless complex and we do not argue for a simple, perhaps unattainable, turning back of the clock, but the wider issue must be addressed. While acknowledging the excellence of GO Wales, for example, the extent of work based learning and genuine part-time engagement by HEIs (but to a far lesser extent FECs) has proved disappointing once one-off pilot projects and EU funded programmes are removed from the equation. This is despite the fact that systems are in place for APEL, CQFW learning outcomes and credit transfer agreements, and multi-mode study options and enrolments. Overall, part-time study seems now to be on the decline, the recognition of prior learning is marginalised, sandwich degrees are withering, and bite-sized accreditation in the workplace is low volume. These observations are linked to underlying funding issues for work based learning: it may well seem less expensive to teach full-time students for three years on a campus than offer smaller Work Based Learning (WBL) programmes to workforces in a variety of locations. From an economic perspective, however, both are needed and the latter is likely to be cost-effective in the long term and needs to be stimulated.

31. A WBL policy is required for the HE/FE sector in Wales that will establish new funding models and provider incentives for bite-sized attainment; develop progression pathways (which include apprenticeships; foundation degrees; the integration of KTP with WBL support); and the re-alignment of HE widening access strategies and criteria with advanced skills development in workforces. At the same time there is a need to up-skill the HE/FE workforce itself in WBL methods and tactics: to include the deployment of virtual learning environments, the design of flexible learning materials, the planning of provision and support (including the use of campuses during full-time student vacations), and the development of brokerage consortium-based services which identify demand led provision.

32. The core issue is that the dominance of the traditional model of HE is not meeting many of the needs of employers and has not well served the widening participation agenda. Outreach policies linked for example to Reaching Wider have modified this model, but not sufficiently. Furthermore, the content of much outreach work has been linked with learning outcomes below levels 3 and 4.

33. *We believe the widening participation agenda should substantially be advanced through work-based learning for those already in the work force and through “bite-sized” learning using the credit framework. We believe a determined*

move in this direction would better meet the needs of many who would not have traditionally entered higher education, as well as the needs of employers and the Welsh economy. A recent report – ***Strategic Development of Higher Level learning for the Workforce of Wales*** (Treadwell and Kennard, UWIC, 2009) identifies many of the issues on which we see a need for action.

34. To our mind there need to be programmes akin to the KTP programmes that bring together the three constitutional elements (the HE institution, the business and the individual), together with their individually required outcomes, but focussed in a joint working programme of study. As with the KTP programme, and to ensure buy-in by the business, this may mean a sliding scale of support – top loaded to attract novice companies into the scheme initially but with reduced support for subsequent participants once the company has experienced the business benefit.

35. There is also a need to assist HEIs, especially in engaging with the vast array of SMEs who would have to be targeted as potential beneficiaries. The “decision makers” in such organisations often see themselves as graduates of the “real world” and lack personal experience of Higher Education and what it can offer them, their employees and their business. Making the initial breakthrough with companies can therefore be highly time and cost intensive. None the less, to fail to reach far more SMEs would be to fail Wales. Success of such programmes does breed success, however, and business people are happy to endorse and recommend programmes that work and deliver for them.

36. The exploratory work done by the Newport University Work Based Learning project was of particular interest to us. We are aware of a similar project developing in the University of Wales Institute Cardiff (UWIC). The Newport project focuses on SMEs and from the beginning recognised that employers wanted up-skilling via bite-size learning not traditional qualifications. It has overcome initial employer scepticism to a promising degree.

37. The programme represents the kind of imaginative approach that WESB believes is needed to raise the skills of the existing workforces of SMEs, promote peer learning, engage employers “by stealth” in improving leadership and management, and also to begin to engage academic departments as well as specialist project staff in such work with SMEs. The key limit on the programme is the dependence on streams of funding to which the programme is peripheral and the quite high costs of outreach and of small scale pilot work.

38. In line with our emphasis on a combined FE/HE priority sector for Wales,

We recommend:

- the transference of much widening participation/outreach activity to FE within strong federations/confederations of HEIs and FECs that are linked to schools by an extension of the 14-19 Pathways model so as to facilitate progression for able children from disadvantaged backgrounds;
- a significant expansion of Level 3 and 4 programmes;
- a clear strategy for Foundation Degrees that are truly collaborative between HE, FE and employers in relevant sectors;
- an expansion of work based learning and work experience within such programmes;
- a commitment to Level 3 and 4 qualifications as valued stop-off points (while enabling progression as appropriate);
- a funding and performance regime that actively promotes innovation and recognises the costs and risks of a radical outreach programme; and
- that the lessons be drawn from the Newport and similar projects and that they be expanded very considerably across Wales initially in pilot form (probably by a few enthusiastic HE/FE partnerships). These projects should be funded in a way that will enable such work to grow and become more cost-effective while ensuring that companies are not put under pressure to fit into main-stream academic courses.

7. Employability

39. Employers increasingly express concern about the employability of new entrants to the labour market (so much so that we have produced a separate report on this topic 'Moving Forward: Employability Skills). Graduates are not exempt. Employers seek but do not always find social skills of a high order and, as with non-graduates, they also expect at least some understanding of the world of work. As the possession of a degree becomes more common these other attributes become more significant as a means of selection. The WESB report on the issue of employability includes HE. We would underline the importance we attach to HE providers taking this matter seriously so as to ease their graduates' progression to good employment.

40. A more specific issue is that of fitness for purpose of "vocational" HE courses. Employers recognise that many HE courses are wholly or largely "educational" in character with no particular vocational slant. The skills they expect of such graduates are well summed up in that classic notion of HE as a "training of the mind". They look for and value the ability to think and analyse in a disciplined way. Things become more complicated in respect of courses that are or seem to be vocational in character – and there is now a great number and variety of programmes that are badged in such a way. Employers often look to them to be "industry standard": to offer understanding and skills that are of direct relevance to the current nature and context of the profession or area of expertise.

41. Employers can experience considerable frustration in this respect. One example was relayed to us by a manufacturer who worked with his local university's engineering faculty to devise a screening test to identify the most appropriate graduate recruits. Both employer and university were surprised to discover a failure rate of 19 of 20 graduate applicants from the very faculty that had helped devise the test. Another employer was dismayed to find that a significant number of accountancy graduate applicants failed to properly balance a balance sheet exercise in a screening test. In both cases the concern was that students lacked the ability to apply – in a manner appropriate to the work context – that which they had learned in theory.

42. One explanation for such discrepancies is that the university may see its role as educating to a standard that makes graduates "fit to be trained", whereas employers expect graduates to have developed skills as well as knowledge and to be "fit to practice" in their specific field. Recurring employer sadness emerges again at this point: the loss of "sandwich" courses. We do not seek an unrealisable status quo ante, but the importance of alternative forms of work experience cannot be over-estimated. Equally, the expansion of part-time study for those already in work would help to modify courses and ensure that knowledge and skills advanced in unison. Beyond that our concern is that HE should do more to specify for employers what may reasonably be expected of their graduates and to what extent apparently vocational programmes seek to be of industry standard in the sense that employers mean this. We will expand upon this in our forthcoming report.

8. Efficiency, Cost-Effectiveness and Re-structuring

43. Funding is the most powerful lever we have to further strengthen the contribution of HE to the economy, but it is not wholly sufficient. In particular, it can be a blunt instrument for promoting solutions and practices that cut across existing institutional boundaries. For the funding lever to foster collaboration, disparate interests and organisations have to come together purely because they see an opportunity for mutual benefit. Government is doing much to affect these relationships (techniums are an obvious example of recent steps in this direction). However, funding incentives for mergers have had a very mixed history.

44. WESB believes that, given limited resources, there is need to focus sharply on the points of genuine excellence (current and potential) in HE/FE that relate to the points of actual and potential strength/growth in the Welsh economy. Bold decisions are necessary; those areas and clusters of expertise and innovation that have the best chances of success have to be given the attention, support and speed of decision taking that will enable them to come together at a high level of performance and productivity.

45. The Welsh pound will be under ever greater pressure into the foreseeable future. Such is the scale of stress in the public finances at UK level that it may take more than a decade to resolve. In the meantime, a double-dip recession is clearly on the cards: the downturn in the private sector will be followed by a long and painful one in the public sector. For a country with the range and depth of social ills with which Wales must grapple, that can only mean stark choices in the application of funding. *More than ever, efficiency and cost-effectiveness will be a moral and not merely a technical matter: to waste a Welsh pound will be to deny much needed support and service to another cause. No-one is owed the luxury of performing below attainable levels of efficiency and cost-effectiveness.* To release funding for precisely the kinds of developments that we advocate is but one good reason to drive efficiency very hard indeed.

46. Productivity in teaching has increased greatly in HE throughout the UK for many years; more students have been accommodated at lower unit cost. But areas of inefficiency remain. It is not WESBs' role to offer a close analysis of the efficiency of expenditure in Welsh HE, but a few examples will make clear our call for a heightened concern for efficiency.

47. Wales has 12 (assuming a merged Trinity and Lampeter) independent institutions for a population of just 3 million. Compare this profile with that of Greater Manchester, which has a similar population but only three universities. We appear to have too many universities and most seem to be too small. This has promoted repeated calls within '**Learning Country: Vision into Action**'

and HEFCW policies for rationalisation/restructuring and mergers. However, we do not believe the case for moving to fewer, larger institutions has been especially well articulated. For example, it must be demonstrated, not assumed, that mergers would increase efficiency without reducing flexibility and responsiveness to local needs. The case for re-structuring deserves to be well made and then pursued with rigour. It is all too easy for proposed re-configurations to become mired in dispute if the case for change is neither powerful nor explicit.

48. Accordingly, WESB does not assume that “big is beautiful” and we recognise that multiple institutions provide a local touch for sub-regional economies. Yet, from an employer perspective, the number and size of HEIs in Wales immediately raises several issues:

- Small, local HEIs can be fragile, of uncertain future and reliant upon limited student demand (indeed, because of its scale relative to population the whole Welsh HE system is dependent on considerable cross-border student flows. It is a good “export” business for Wales while those student flows hold up, but they are not necessarily immutable).
- As a rule, the “dead weight” of overhead costs tends to vary by the size of institution; smaller institutions are likely to spend proportionately more on central costs and less on “front-line” services. The minimum size below which an institution’s overall efficiency falls is known in respect of Welsh FE (Webb Review Report, Welsh Assembly Government, December 2007 *Promise and Performance: The Report of the Independent Review of the Mission and Purpose of Further Education in Wales in the context of the Learning Country: Vision into Action*). If the same is true of HE we would see a case for funding penalties being applied.
- However, a narrow notion of efficiency is not the only issue; reduced levels of performance and impact may be a price we pay for the current structure of the HE system we have inherited.

49. Rather than re-cycle past discussions, such as those about mergers, therefore, WESB sees a need to specify desired outputs and outcomes more clearly and then measure variations in the costs of producing them – both in the current and in hypothetically re-modelled versions of the HE system.

50. It is at this point that the “too many, too small” argument raises questions about the nature and style of the overall expansion of HE – and of student demand. The funding of teaching and learning is based primarily on student numbers and student choice. Under-recruitment costs an institution and is penalised, yet the competition for students has been keen in many disciplines and for most Welsh HEIs. The funding model for growth has therefore encouraged HEIs to have diverse portfolios and – wherever there seemed to be a demand – to develop courses in competition with others that were already established in the market. Students need choice of courses and institution; but it is not essential to provide multiple choices within Wales – given the

range of choice across the UK – if it is at the price of inefficiency and nugatory competition. Even if we were to believe in a consumer choice driven market in public services – which Welsh Assembly Government by and large does not – we would not need to deliver sufficient choice to create a “competitive Welsh market” in all programmes.

51. In practice, WESB notes that multiple institutions have resulted in a duplication of provision that is not self evidently efficient. The mushrooming of “business schools” is a case in point – almost all HEIs now feel they must have one despite the fact that attracting high quality business school academics does not come cheap. The total pool of students wanting to study the subject in Wales may have been expanded thereby, but it may also be that a relatively fixed pool of student demand is being fought over at an increasing cost. The existence, nature and costs of any “nugatory” competition need to be taken seriously. To the extent that there is a significant problem, changes at the level of the whole Welsh HE system might mitigate some wasteful expenditure.

52. Problems in a number of disciplines expose the dangers of uncoordinated provision in a system of many and relatively small HEIs: rather than one or two reasonably powerful departments, the outcome is a number of smaller units which may struggle to survive let alone reach the highest standards. And the vagaries of student demand means that even previously high demand subjects can quickly lose much of their buoyancy (Computing is one area that has experienced significant fluctuations).

53. In principle, a truly federal University of Wales might have been a solution to some of these problems. “Federal” systems are an important feature of HE provision in some parts of the world (California and Wisconsin spring to mind). In Wales this could have been especially true of research in high cost areas: jointly owned facilities; joint research bids; and – above all – unified submissions to past Research Assessment Exercises (RAE) could have stood us in good stead in the recent past. Some of this happens, of course, but to far too small an extent to our mind.

54. Recent history should not blind us to the potential value of “federal” models alongside mergers and other approaches to the re-structuring of HE. A federal approach need not be confined to whole institutions: groupings of departments could be a way forward for both teaching and research, but *strongly federal* – or mandated – structures would be needed, not weak “confederal” arrangements in which the pace is set by the most recalcitrantly independent member.

55. However, in other cases, looser arrangements (such as having lead departments) could well meet the need to rationalise provision of, for example, specialist elements of programmes or of research. Interestingly, the ESRC has indicated that it sees Wales as being too small to warrant funding for multiple

post graduate research centres; in future it will only fund one – probably a coming together of departments to create a virtual centre. *To our mind it is perfectly legitimate for, if not incumbent upon, the Welsh Assembly Government and HEFCW to use the allocation of its own resources to achieve well defined and well designed improvements of this kind.*

56. There is an undoubted need for something more than a purely institution by institution approach if we are to meet the needs of vital parts of the present Welsh economy let alone drive the economy to higher levels of performance. We need things to come together and make a big impact. Wales-wide groupings of departments within key subject areas – whether by means of formal “federations” or virtual centres (albeit strongly driven and co-ordinated) – are an obvious and to our mind appropriate way of producing a Welsh solution to a Welsh need.

57. The obvious conclusion is that a rigorous business case approach should be used to explore several different models of rationalisation, to include: fewer managements and autonomous institutions in Wales (though not necessarily fewer points of delivery); mergers; new “federal” structures at departmental level; and virtual “centres” driven by lead institutions. Promising models should then be pursued with vigour. Given that the squeeze on public expenditure will create a very uncomfortable future, change is inevitable. Radical, but well designed transformation will enable rather than de-stabilise the further development of HE in Wales.

We recommend:

- an immediate, wide ranging, “root and branch” consideration of what could and should be achieved by way of greater efficiency, improved critical mass, minimal “nugatory” competition and reduced overhead costs through a variety of routes to the re-structuring of Welsh HE (“federal” models, virtual centres and lead departments as well as mergers and confederations) – followed by a re-alignment of public funding such as to achieve significant change.

9. Funding Models

58. Funding and the funding models that determine its allocation profoundly shape performance, priorities and behaviours in both HE and FE. Funding is essentially allocated institution by institution and is substantially determined by activity (e.g. student numbers). To an extent it is also shaped by national economic needs and by institutional performance.

59. As we have emphasised, we do not believe these latter drivers of behaviour and performance are presently sufficient. However, there is in addition a need to respond to *regional economies* across both HE and FE. An argument was advanced in the Beecham Report (***Beyond Boundaries: Citizen Centred Local Services for Wales***) for a “whole public spend” approach to geographical areas in which monies would be considered as a “pot” to be spent on the area’s needs regardless of the way in which they had been allocated to national budgetary lines. This would enable priorities embedded in individual departmental policies to be modified locally in the light of agreement about local priorities. It is therefore galling that England is now making the running with this approach in its “Total Place” pilots. It is a model that would seem to make sense in aligning the HE/FE sector with the needs of local and regional economies.

We recommend at an inter-departmental level:

- a rigorous exploration and piloting of the “Total Place” approach to “pooling” all funding of HE and FE type activities within a region (whether by DCELLS/ DE&T, other Welsh Assembly Government Departments and HEFCW in the form of grants etc, or Local Authorities) so as to re-balance expenditure in ways that will meet regionally and locally defined priorities; and
- careful but urgent consideration of how best to allow some discretion at the local/regional level in the allocation of the total pot as between institutions and locally determined priorities.

60. This raises the fundamental issue of how best to fund HE and FE institutions. Formulaic funding has its merits and to a degree ties income to performance; but it leaves little flexibility and can tend to drive institutions in similar directions and into nugatory competition. As we noted above, Wales needs diversity at the institutional level if national and regional/local needs are to be met. One way of achieving this would be ***Mission Funding***: the tying of an institution’s funding directly to an agreed mission – with substantial institutional autonomy in how best to apply that resource (subject to audit of outcome). In such a system the missions agreed for different institutions would specify a limited number of core

deliverables that reflected their strengths (original research/knowledge transfer/access/particular subject areas etc) and identify particular needs and priorities (national, regional, or local). Crucially, the specification of mission could also move beyond the level of the individual institution and recognise the importance of institutions working collectively as a system capable of delivering more than the sum of the parts. Collaboration, consortia and federal approaches could be specified as a key requirement (for example, in expensive areas of research or shortage disciplines). Mission Funding is in effect a contract between a funding body and institution that guarantees funding over a specified period of time subject to an agreed pattern of behaviour and delivery; it is different in kind from formula funding.

61. This idea is not new to Wales or to the UK HE system – or unknown internationally. Interestingly, it was advocated a decade ago by the then Vice Chancellor of one of the Welsh research led HEIs as a means of protecting strong research departments from a sharp drop in student fee funding consequent upon a recruitment downturn. However, this proposal was itself only, in effect, a call to return to the system operated by the old University Grants Committee for many years until it was driven into disrepute by deliberate (allegedly) non recruitment of students and staff in some universities. Clearly, a pure mission funding model that insulated HEIs from all changes in their market and performance is, rightly, anathema. A “mixed economy” of mission funding and formula would be a different matter. It could respond to precisely the problem of shortage subjects and expensive areas of research by entrenching and resourcing collaborative or federal solutions that spanned institutions within the core mission funding of each of those institutions. It could also be a means of recognising regional or local needs and priorities within the “total place” approach noted above.

We recommend:

- Urgent re-assessment of the current funding models, to include such as ideas as partial mission funding, so as to achieve the much needed further improvement in the HE/FE sector’s beneficial impact on the Welsh economy now and into the future.

10. Managing Performance

62. What the Welsh pound buys by way of HE/FE outputs and delivery needs to be driven more fully by the needs of the Welsh economy. The NHS illustrates the potential of HE/FE partnerships working with a government department. This illustrates that, as we argued in '**A Wales that Works**', what is needed to achieve economic transformation is a *Whole Government* approach. The shaping of priorities and performance by DCELLS and HEFCW must operate within a context set by a whole government assessment of how best HE/FE can enhance economic development.

63. At the same time we are concerned that HE/FE should have the freedom to respond rapidly, flexibly and innovatively to the needs of individuals, communities and the economy. The role of government should be to provide the clear signals and incentives that will promote valued outputs while exercising accountability for the use of public resources; its role should not be to micro-manage or collect more voluminous data than is necessary. The dangers of under-regulation have become all too clear in recent times, but as the Beecham Report (***Beyond Boundaries: Citizen Centred Local Services for Wales***) urged, government should adopt a proportionate approach (proportionate to risk and past performance). We have only just begun to see evidence (*DCELLS paper on Performance Framework for Skills & Employment presented to WESB in December 2009*) of a move towards the outcome measures and the proportionality to which Beecham referred and for which we have argued (ref *WESB report 'A New Generation of Skills & Employment Indicators' presented to Ministers* in July 2009). As yet we see no significant move towards a reduction in bureaucracy.

64. Outcome measures that are aligned with the needs of employers and the economy are a priority, but there is also a case within the spirit of Beecham for better and more accessible information on institutional outcomes that affect the wider public. We note the UK Commission for Employment and Skills (UKCES) proposal to create new performance measures for HEIs, but we have reservations. For example, the use of the earnings of ex-students as a measure entails a significant moral hazard: it implies only well paid jobs are to be valued and it could lead to a distortion of careers advice and guidance. Any move towards league tables based on ex – students' earnings would also push HEIs even further towards a single model of their role. By their nature, league tables also grossly simplify what are complex and nuanced aspects of performance.

65. What Wales needs is an HE/FE sector characterised by a diversity of missions and outputs such that local and sectoral needs can be fully met, not a greater standardisation of mission and behaviour. What is clear, however, is that the UKCES report catches a mood and a need that must be heeded. The performance management of HE (and FE and schools) is an issue that cannot be ignored and which must focus ever more closely on output and outcome measures on the one hand and the reduction of nugatory bureaucracy on the other.

66. WESB believes there is a case for a distinctively Wales approach based on a social partnership/outcomes model that would be akin to a periodic “balanced scorecard” assessment of institutional performance. It would include inputs from a variety of sources – including national and regional/local stakeholders. One way forward would be for stakeholder reviews of the effectiveness of institutions to be based on;

- student outcomes (critically, including destination data that go beyond the current first destination data currently produced for HE);
- employer and student satisfaction data;
- alumni “reflections in tranquillity” on the quality and value of their learning experience;
- staff perceptions of institutional outputs and outcomes; and
- local/regional community assessments of the contribution of the institution.

67. Institutions – and groups of institutions serving a community – should themselves aspire to have and to collect such feedback on a regular basis as part of their self-critical approach to their development. We believe they should be expected actively to establish regional stakeholder fora in order to provide this 360 degree view of their performance. Reasonably standardised performance information of genuine value to stakeholders will probably require involvement of HEFCW/Welsh Assembly Government, but the clear quid pro quo for focussing on outcomes in this way must be greater financial flexibility and simplified accountability. It is important to enable HE and FE institutions to respond quickly and flexibly to shifting need and demand.

68. Another potential benefit of this approach would be to boost alumni contacts. Longer term employment data will best come from active alumni relationships; it is an area in which HE in the UK underperforms as compared with some countries – and, we suspect, Wales may under-perform within the UK.

We recommend that;

- a radical re-appraisal of how government relates to the sector be undertaken with a view to creating performance measures that drive outcome, delivery and accountability for public money while avoiding expensive, and intrusive micro-management;
- a standardised and publishable institutional self-appraisal score-card (based on a social partnership/community outcomes model) is piloted without delay.