

# Universities Wales response to the Finance Committee of the Senedd's call for information on Welsh Government Draft budget proposals for 2022/23

## About Universities Wales

Universities Wales represents the interests of universities in Wales and is a National Council of Universities UK. Universities Wales' membership encompasses the Vice Chancellors of all the universities in Wales and the Open University in Wales. Our mission is to support a university education system which transforms lives through the work Welsh universities do with the people and places of Wales and the wider world

## Summary

1. Wales faces a range of profound and wide-ranging challenges over the next Senedd term. These include the economic and social recovery from the pandemic, the need to address climate change, demographic shifts and the impact of technological change on workplaces and the possibility of shrinkage in high-employment occupation areas in Wales.
2. Welsh universities play a fundamental role in our communities, regions and nationally. As well as the economic impact of our universities – spending by universities and students generates over £5bn of economic output and 1 in every 20 jobs in Wales – our universities' work also supports social mobility, tackles poverty and related health impacts, and also brings tangible benefits to people's lives through research and innovation.
3. Universities across Wales provide education and training in key skills necessary for economic development and life and well-being. From engineers to doctors, from nurses to teachers, from journalists to politicians. In the next five years alone, Welsh universities will provide 4,000 years' worth of upskilling and training to businesses and charities, and will train 10,000 nurses and 4,000 medics.
4. Our universities take seriously their responsibilities to people in Wales and our communities. We are the only UK nation where all universities are signed up to a civic mission framework that sets out our activities and ambitions around supporting communities and public services. We are also the only UK nation where all universities are accredited living wage employers.
5. Welsh universities continue to face a range of substantial risks including the impact of the COVID-19 pandemic, uncertainty over policy and funding changes on a UK-level, increasing costs and an uncertain global outlook.

6. There are key ways that future Welsh Government budgets can enable universities to continue to deliver public benefit and address the challenges Wales faces:
  - a. At a minimum, maintain in real terms the current level of investment in higher education. The current HEFCW allocation of £208m supports areas such as core research funding, innovation funding, support for expensive and high cost subjects, and part-time provision.
  - b. Deliver the Reid Review's recommendations on additional investment including a fund to reward those institutions who are successful in bringing additional investment to Wales and enhanced support for innovation.
  - c. Explore opportunities to increase support, through pump priming, for key priorities in Wales such as the environment, life sciences, advanced manufacturing and digital.
  - d. Invest in response to the increased demand for higher level skills: supporting universities to expand degree apprenticeships and funding to support the expansion of collaborations that enable more people to access higher level skills including at level 4 and 5. As part of this approach, an extension of personal learning accounts' grant funding to universities would be welcomed.
  - e. Additional support for capital investment to enable universities to invest in estates and infrastructure. This would help mitigate the short-term risks posted by the loss of EU structural funds.
  - f. Continued support for international activity including through the Welsh Government's commitments to the International Learning Exchange Programme and Global Wales. This will help secure Wales' place on the global stage and, through partnerships and student mobilities, will bring greater investment to Wales.

## Consultation questions

1. What, in your opinion, has been the impact of the Welsh Government's 2021-22 budget including funding related to COVID-19?
  - 1.1. Welsh universities continue to face a range of risks including the impact of the COVID-19 pandemic, uncertainty over policy and funding changes in England that would impact Wales, and an uncertain global outlook.
  - 1.2. The Welsh Government's budget allocation for financial year 2021-22 was £208 million for higher education (as of the 1st Supplementary Budget). In addition, there was a capital funding allocation of £10m. This budget settlement reflects commitments made

by Welsh Government in response to the Diamond Review which saw reforms to higher education funding<sup>1</sup>.

- 1.3. It is important to acknowledge that this funding is in the context of increasing costs across the university sector. For example, employer contributions to the Teacher's Pension scheme increased from 16.4% to 23.6% in September 2019 as a result of decisions made by UK Government. Unlike other affected sectors, there was no government support for these increased costs. Similarly, there has been an increase from 14% in 2009 to 21.4% in 2021 in the level of employer contributions to the Universities Superannuation Scheme (USS). While costs have increased, a key source of university income, the £9,000 tuition fee for undergraduate provision, has remained fixed in cash terms since 2012. Similarly, the current economic outlook including inflation and supply chain challenges is further increasing universities' costs.
- 1.4. Although Welsh universities received funding related to COVID-19 in 2020-21, there has been no additional funding to support the sector's COVID-19 response in 2021-22. Welsh universities continue to provide a robust response to the challenges posed by the pandemic. This work includes responding to increased demand for well-being and support services, supporting new students who have experienced substantial disruption in their education and the ongoing work our universities do with their communities<sup>2</sup>.
- 1.5. Broadly, the Welsh Government's 2021-22 budget, by delivering on commitments made in response to the Diamond Review, has provided consistency and certainty for universities at a crucial point. It has brought core funding for Welsh universities to a level broadly comparable to other parts of the UK.
- 1.6. This funding commitment has played a critical role in supporting universities through the current period of global turbulence. For context, in the academic year 2019-20 and as a result of the onset of the pandemic, the university sector in Wales experienced a reduction of 23% in residences, catering and conference income alone; falling from over £107m to £82.7m<sup>3</sup>.
- 1.7. The benefits delivered by universities through Welsh Government funding are felt across Wales. Recent independent analysis by Viewforth Consulting<sup>4</sup> found that Welsh universities generated over £5.3bn of output and 1 in every 20 jobs in Wales. Moreover, universities accounted for 11.8% of Wales' service sector exports in 2019/20. Crucially, 22% of jobs generated by universities are in areas of Wales with no physical university presence.
- 1.8. The economic impact of universities is felt across the supply chain. Universities in Wales are all accredited Living Wage Foundation employers. Wales is the only nation in the UK to have every university accredited.

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<sup>1</sup> <https://gov.wales/sites/default/files/publications/2018-02/response-to-the-recommendations-from-the-review-of-student-support-and-higher-education-funding-in-wales.pdf>

<sup>2</sup> Some examples highlighted here: <https://uniswales.ac.uk/media/Universities-in-Wales-Civic-Response-to-Covid-19.pdf>

<sup>3</sup> <https://uniswales.ac.uk/media/The-economic-impact-of-higher-education-in-Wales.pdf>

<sup>4</sup> Ibid

- 1.9. Universities across Wales provide education and training in key skills necessary for economic development and life and well-being: from doctors, nurses and teachers to engineers, journalists and politicians.
  - 1.10. Research by the National Centre for Entrepreneurship in Education (NCEE), predicts that over the next five years, universities in Wales will:
    - 1.10.1. Give 4,000 years' worth of upskilling and training to businesses and charities.
    - 1.10.2. Help 1,300 new businesses and charities to be formed.
    - 1.10.3. Be part of regeneration projects worth £536 million to the Welsh economy.
  - 1.11. Universities have a crucial role to play in training the healthcare workers who have played such a pivotal role in the country's response to the pandemic. In the next five years we will train 10,000 nurses and 4,000 medics, working with the NHS to provide a critical pipeline of talent to help ensure it has the resources it needs to respond to the challenges it faces both now and in the future.
  - 1.12. Universities' contribution is more than its economic impact. In a typical year, around 260,000 people will attend performances of music, dance, and drama at organised by Welsh universities and around 253,000 will attend free exhibitions, galleries or museums hosted by Welsh universities. Our universities provide community resources and facilities, and are stewards of our language and culture.
  - 1.13. All universities in Wales are partners in the Civic Mission Framework which sets out the ways in which Welsh universities are connected to their local communities and will seek to bring benefits to those communities<sup>5</sup>.
2. How do you think the Welsh Government priorities for 2022-23 should change to respond to COVID-19
- 2.1. The response to COVID-19 will need to be developed and considered within the context of the wider set of challenges that Wales faces in the coming years including climate change, automation and its impact on occupation sectors, and demographic change. Furthermore, the recovery from COVID-19 will be made up of a number of different areas, many of which are relevant to universities and their communities.
  - 2.2. For example, this includes the support universities will have to offer young people starting university who will have experienced at least two academic years of disruption as well as well as the pandemic's impact on their mental and physical well-being. In addition to supporting learners, there will also be the economic recovery including the disruption to skills pipelines due to the pandemic's impact on migratory patterns, likely compounded by the UK's withdrawal from the EU<sup>6</sup>.
  - 2.3. The Welsh Government's priorities for 2022-23 will of course need to reflect the short-term pressures of the pandemic including on health and employment. But, beyond this, there is also a need to ensure that we provide the necessary investment to support

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<sup>5</sup> <http://uniswales.ac.uk/media/Civic-Mission-Framework-Wales-2021.pdf>

<sup>6</sup> <https://www.ft.com/content/3feef87e-62b5-4fe5-bda4-92178095f092>

Wales' long-term recovery. This will enable us to tackle the challenges we face such as climate change and the impact of technological change on the workplace.

- 2.4. A crucial part of this response will be an understanding of the role of research and innovation across these areas, and **the need to invest in research and innovation to deliver our ambitions for Wales**. Currently, as part of the £208m allocation to higher education by Welsh Government, there is an investment of £88.3m in quality related research funding, which supports research infrastructure in Wales and provides capacity to pursue competitive funding, and £15m in innovation funding<sup>78</sup>.
- 2.5. In addition to maintaining these baseline investments, **we need to ensure funding is available to pump prime key areas of research and innovation** that are related to Wales' priorities such as environment, digital, and life sciences.
- 2.6. The pandemic has not only disrupted employment, as a result of its direct impact on businesses, but has also accelerated the impact of technological change on the workplace. Alongside this shift, Wales is also experiencing profound demographic changes. The number of people aged 16-64 in Wales is projected to decrease by 4.2% between 2016 and 2041, while the number of people aged 65 and over is projected to increase by 36.6%<sup>9</sup>.
- 2.7. Given these changes, it will become increasingly important in Wales that more people of all ages and backgrounds are provided with opportunities to upskill and reskill. Flexible provision will be key to this. Welsh universities have demonstrated a commitment to developing flexible course options and partnerships to facilitate this.
- 2.8. This is evidenced through the speed with which Welsh universities were able to establish and deliver degree apprenticeships despite the challenging circumstances described in the Welsh Government's degree apprenticeship evaluation's scoping report. This report concluded that the governance structure of the programme apparent to be a particular success and there is evidence that the programme has cemented partnerships between universities, colleges and work-based learning providers<sup>10</sup>.
- 2.9. There are a range of ways that Welsh Government could target resource to support higher level skills development, an area that has become of greater important given the economic impact of COVID-19. These include:
  - 2.9.1. **Expanding degree apprenticeships**. Currently degree apprenticeship are only available at level 6 (bachelor's) in the subject areas of digital, advanced manufacturing and engineering. We would strongly recommend expanding these programmes into other areas and to master's level. Universities report strong demand amongst businesses and individuals for these programmes.

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<sup>7</sup> <https://www.hefcw.ac.uk/en/news/funding-for-higher-education-in-2021-22/>

<sup>8</sup> It is important to note that Welsh Government budget years do not line up with the funding year used by HEFCW. However, for the purpose of illustration these figures are broadly consistent with what we would expect from recurrent Welsh Government funding at this level.

<sup>9</sup> <https://uniswales.ac.uk/media/Solving-Future-Skills-Challenges-in-Wales.pdf>

<sup>10</sup> <https://gov.wales/evaluation-degree-apprenticeship-programme-scoping-report-summary-html#section-81797>

- 2.9.2. Exploring the **further development of micro credentials**. An initial investment has been made in 2021-22 by HEFCW<sup>11</sup>. Similar developments are taking place elsewhere in the UK<sup>12</sup>.
- 2.9.3. **Extending personal learning accounts to universities**. Currently personal learning accounts provide grant funding to FE colleges to deliver provision up to level 5 in a wide range of subject areas. We would recommend exploring what benefits could be gained by extending this offer to include universities.
- 2.10. We would **also welcome capital funding for universities** from Welsh Government for 2022-23. In particular, many universities have had to make additional investment in their estates and infrastructure as a result of the pandemic, including in improvements to digital infrastructure. At the same time, many universities, across the UK and in Wales, are highly leveraged and unable to pursue further lending. Capital investment at this stage would support universities in responding to the changes to operating prompted by the pandemic as well as mitigate some of the uncertainty on the replacement of EU structural funds.
3. How financially prepared is your organisation for the 2022-23 financial year, and how can the budget give you more certainty in planning and managing budgets given the ongoing volatility and uncertainty?
- 3.1. Welsh universities have consistently demonstrated their ability to manage uncertainty. However, there are key things that Welsh Government can do to support universities in mitigating the impact of the current volatile environment.
- 3.2. Firstly, committing to maintaining, in real terms, the current baseline investment in higher education (£208m as of the first supplementary budget 2021-22) would secure core funding for crucial areas such as quality-related research funding, innovation funding, part-time teaching grant and support for expensive and high cost subjects.
- 3.3. Further support in the areas identified above – pump priming for research and innovation to support priorities such as digital, life sciences and environment, pump priming support for building collaborations and partnerships – would also mitigate the ongoing volatility and uncertainty.
- 3.4. In addition to this, the loss of European Structural and Investment Funds continues to provide considerable uncertainty and risk for Welsh universities. Since 2014, Welsh universities have been awarded over £300m of EU structural funds as lead partners in projects. Although the recent comprehensive spending review detailed the anticipated level of investment in the UK Government’s proposed replacement funds, it is still unclear how this funding will be distributed. **Given this, one way to mitigate the risks**

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<sup>11</sup> <https://www.hefcw.ac.uk/wp-content/uploads/2021/07/W21-23HE-Call-for-proposals-to-develop-micro-credentials.pdf>

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[http://www.sfc.ac.uk/web/FILES/announcements\\_sfcAN062021/SFC\\_AN\\_06\\_2021\\_HE\\_Upskilling\\_funding\\_20\\_21.pdf](http://www.sfc.ac.uk/web/FILES/announcements_sfcAN062021/SFC_AN_06_2021_HE_Upskilling_funding_20_21.pdf)

**posed by the loss of these funds would be to provide additional capital funding for universities.**

- 3.5. Capital funding could be used to invest in the learning environment for students. This remains a priority for universities who are continuing to adapt their infrastructure and delivery to provide students with the best possible support and experience as we recover from the pandemic.
  - 3.6. In addition, capital investment will support universities' research and innovation infrastructure. This is an area where EU Structural Funds had been used to good effect and there are further benefits that universities could realise through additional support.
4. Given the ongoing uncertainty and rapidly changing funding environment do you think there should be changes to the budget and scrutiny processes to ensure sufficient transparency and Ministerial accountability?
    - 4.1. We welcome any further measures that focused on transparency in the allocation of budgets and their scrutiny. In higher education there is considerable transparency in terms of financial data and funding allocations.
  5. Does the Fiscal Framework adequately reflect the impact of the public health emergency in Wales compared to other UK countries and do you support increasing the annual and/or overall limits, £150 million and £1 billion respectively, to current Welsh Government capital borrowing within this Framework?
    - 5.1. Universities Wales does not have a view on this area.
  6. The Committee would like to focus on a number of specific areas in the scrutiny of the budget, do you have any specific comments on any of the areas identified below, particularly in light of the COVID-19 situation and how these should be reflected in the 2022-23 budget?

**- How resources should be targeted to support economic recovery and what sectors in particular need to be prioritised.**

- 6.1. Our universities are key economic anchors across Wales, generating over £5bn of output and 1 in every 20 jobs. But universities' economic contribution is broader than this. Universities deliver research and innovation activity that is closely linked with increases in productivity and helps ensure Wales is prepared for the social and technological changes we face. Graduates make valuable contributions through their work and through entrepreneurship. Wales continues to be a leader in student and graduate entrepreneurship with the highest number of graduate start-ups per capita in the UK<sup>13</sup>.

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<sup>13</sup> <https://www.hesa.ac.uk/data-and-analysis/business-community/ip-and-startups>

- 6.2. At the same time, universities face a distinct set of risks and pressures including the impact of the pandemic on students, uncertainty over replacement EU funding, the possible impact of reforms to higher education funding in England, the uncertain global outlook, and increasing costs.
- 6.3. Our universities are a key part of Wales' social and economic fabric and will play a key role in tackling the challenges that Wales faces including our recovery from the pandemic, climate change, automation and demographic change.
- 6.4. Given this, we would recommend ensuring sufficient resource is provided to enable universities to support Welsh Government and other stakeholders in mitigating the challenges Wales' faces.
- 6.5. This would include:
  - 6.5.1. At least maintaining, in real terms, the current level of investment in higher education from the Welsh Government: £208m which supports areas such as core research funding, innovation funding, support for expensive and high cost subjects, and part-time provision.
  - 6.5.2. Delivering the Reid Review's recommendations of additional investment in research and innovation including a fund to reward those who are successful in securing additional investment in Wales and enhanced innovation funding<sup>14</sup>.
  - 6.5.3. Exploring opportunities to increase support through pump priming for key priorities in Wales such as the environment, life sciences, advanced manufacturing, and digital.
  - 6.5.4. Capital investment to enable universities to invest in estates and infrastructure, particularly in the light of the pandemic. Many universities (across the UK as well as Wales) are already highly leveraged and, as a result, are limited in what additional lending can be taken up. Capital investment would enable continued investment in infrastructure, including for research and innovation purposes, and would help mitigate in the short-term the risks posed by the loss of EU structural funds.
  - 6.5.5. Investing in response to the increased demand for higher level skills: supporting universities to expand degree apprenticeships and funding to support the expansion of collaborations that enable more people to access higher level skills including level four and five. This would enable more people of all ages and backgrounds to access higher education.
  - 6.5.6. Continued support for international activity including through the Welsh Government's commitments to the International Learning Exchange Programme and Global Wales. This will help secure Wales' place on the global stage and, through partnerships and student mobilities, will bring greater investment to Wales.
- 6.6. Government may have ambitions for specific programmes or developments including those in their plan for government. In the budget they may need to consider how these

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<sup>14</sup> <https://gov.wales/sites/default/files/publications/2019-04/review-of-government-funded-research-and-innovation-reid-review.pdf>

developments be resourced in three ways – pump priming, ongoing revenue costs and significant capital costs.

**- To what extent alleviating climate change should be prioritised in supporting economic recovery**

- 6.7. Tackling climate change and its associated impacts will be one of the foremost challenges that Wales will face in coming years. Universities have a vital role to play in the global fight against climate change: through developing and innovating solutions addressing how we transition to a low-carbon future, and by training the future workforce with skills for a greener future.
- 6.8. It is entirely appropriate that tackling climate change should be a key focus for our economic recovery including the development of research and innovation activity. Support for research and innovation to tackle climate change could encompass a range of activities from new innovations in energy capture and storage through to studies of the impact of climate change on communities and what approaches could be utilised to shift behaviours.

**- How resources should be prioritised to address the pressures felt in sectors that need to 'catch-up', such as health and education**

- 6.9. A generation of children and young people will have undergone a level of disruption unlike anything in recent history. We would encourage the consideration of these challenges to be wider than in terms of 'catch-up' which tends to focus on support such as additional tuition.
- 6.10. For example, already universities report an increase in demand for student support services which indicate an increased prevalence of well-being issues for students.
- 6.11. Beyond this, given the demographic shifts and the changes to the workplace, we anticipate that more people of all ages and backgrounds will be seeking higher education which will place a different set of pressures on our institutions.
- 6.12. It is also important to reflect that the prioritisation of resources in health and education will also encompass research and innovation. For example, life sciences is an area of research strength in Wales. Research across life sciences and related disciplines will support Wales with pandemic preparedness ensuring we are able to maintain the infrastructure that has developed to manage the pandemic and minimise the impact of future pandemics in Wales.
- 6.13. Throughout this response we have outlined a number of priority areas that would address these pressures including:
  - 6.13.1. Maintaining in real terms, at least the current level of investment in higher education
  - 6.13.2. Additional capital investment in higher education

6.13.3. Support for flexible learning including the expansion of degree apprenticeships and pump priming for collaborative delivery of level 4 and 5 provision

6.14. In addition to this, support for research in Wales will help further our understanding of the education and health impacts of the pandemic and identify ways in which we can best support those affected including on a system and individual level.

#### **- Welsh Government policies to reduce poverty and gender inequality**

6.15. Universities have an important role in reducing poverty and gender inequality in Wales. Higher education remains a major catalyst for social mobility and Welsh universities have a long track record of comparing favourably to the rest of the UK in terms of the percentage of students from under-represented groups<sup>15</sup>.

6.16. Welsh universities continue to contribute to wider public and social objectives. Welsh universities have become signatories of the Welsh Government's Code of Practice for Ethical employment in Supply Chains and are accredited Living Wage Foundation employers. This makes Wales the only UK nation where all universities are accredited by the Living Wage Foundation.

6.17. Similarly, all Welsh universities are committed to delivering civic mission activities and are partners in the Civic Mission Framework which sets out the sectors ambitions for further developing our universities' benefits for local communities.

6.18. Higher education, more broadly, also plays a role in addressing gender inequality. Recent work by IFS suggests that attending university increases women's earnings by 26% at age 29<sup>16</sup>. Similarly, a study of graduate earnings found that all students, no matter their subject choice or background, benefit from higher education with underrepresented groups having relatively high returns from going to university<sup>17</sup>.

#### **- Approach to preventative spending and how is this represented in resource allocations (Preventative spending = spending which focuses on preventing problems and eases future demand on services by intervening early)**

6.19. A range of activities carried out by Welsh universities make a positive contribution to the well-being and prosperity of people and places in Wales and, as such, the funding to support those activities should be viewed as preventative spending. For example, research and innovation activity exploring issues such as clean, sustainable energy capture and storage can help reduce future carbon emissions. Similarly, the opportunities offered by universities for people of all ages and backgrounds to access higher level skills will help address the potential economic and societal shocks of automation and technological change.

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<sup>15</sup> <https://www.hesa.ac.uk/news/01-02-2018/widening-participation-tables>

<sup>16</sup> <https://www.ifs.org.uk/publications/13732>

<sup>17</sup> <https://ifs.org.uk/publications/15383>

- Sustainability of public services, innovation and service transformation
- How evidence is driving Welsh Government priority setting and budget allocations
- How the Welsh Government should use taxation powers and borrowing.
- What specific support is needed in the budget for businesses. economic growth and agriculture, related to post EU transition.

6.20. As outlined throughout this consultation, there are a range of steps that Welsh Government can take to mitigate the risks posed by the post EU transition. These include:

6.20.1. Providing capital investment to mitigate the loss of EU Structural Funds and the ongoing uncertainty over replacement funds

6.20.2. Support business demand for higher level skills through the expansion of the highly regarded degree apprenticeship programme. Further respond to demand for higher level skills through investment in flexible learning provision, an extension of personal learning account funding to higher education and pump-priming to support further collaboration activity.

6.20.3. Support businesses through investment in research and innovation including pump priming for research and innovation activity in key priority areas such as environment, life sciences, digital and advanced manufacturing.

**Universities Wales**

**29 November**

