

Universities Wales response to the Committees of the National Assembly for Wales' call for information on Welsh Government's draft budget proposals for 2021/22

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. Welsh universities continue to play pivotal role in their local and regional economies as well as the national economic prosperity of Wales. An independent analysis of the economic impact of Welsh universities found that Welsh universities generated £5bn of output and nearly 50,000 jobs across Wales. Welsh universities also continue to have the highest student satisfaction in the UK and the highest student continuation rates (retention) in the UK.
2. As a core part of Wales's national infrastructure, universities are a necessary and essential component in driving the economic recovery and renewal in Wales in the post-COVID landscape. Investment in universities in Wales will play a vital role in the response to the pandemic in support of the Welsh Government policy agendas for catalysing growth of the economy, skills growth and employment in Wales and in support of Future Generations Wales objectives.
3. In particular, the Welsh Government should consider prioritising further investment in the following areas to support universities in building economic resilience and driving recovery in Wales and managing Brexit:
 - Employability, including degree apprenticeships – responding to the severe shock to the labour market and need for more people than ever to learn and adopt new ways of working.
 - Research and innovation – strengthening Wales' capacity to attract funding from the UK and compete internationally
 - COVID-19 related capital projects, that will help universities to accommodate a shift in patterns for the delivery of learning and student welfare support which continues to be a priority for universities. This may include, for instance, increased investment in:
 - programmes designed to support student mental health and well-being, and provide reassurance for students and their families that the necessary additional practical and welfare support is in place;

- the potential expansion of learning and teaching capital projects such as blended learning and vulnerable students, and to support strategically important but vulnerable subject opportunities for students;
 - further investment in physical estates and IT infrastructure, and development of digital assets, supporting moves to a green economy as well as supporting shift in patterns of delivery of teaching and student support;
 - International, investing in the networks and programmes that are most likely to secure Wales' global presence in a highly volatile and new international landscape following Brexit and the pandemic.
4. At the same time it should be recognised that the financial challenges facing higher education due to Covid-19 are yet to reach their peak. The financial challenges for many institutions during the 20/21 and 21/22 academic years will persist.
 5. Continued commitment to stabilising the financial health and sustainability of universities in Wales through implementation of the Diamond recommendations remains as important as ever. At this stage, we cannot rule out the possibility that some institutions in Wales will be faced with very significant financial challenges.

Response to the consultation Questions

1. Question 1: What, in your opinion, has been the impact of the Welsh Government's 2020-21 budget including recent funding related to COVID-19?

- 1.1. Prior to the COVID-19 crisis, the Final Budget for higher education allocated £178m to higher education for the 2020/21 financial year. When the First Supplementary budget for 2020/21 was published in May 2020, however, the Welsh Government reduced the budget for higher education by £16.3m to £161m to help the Welsh Government deal with the COVID-19 pandemic.
- 1.2. The Second Supplementary budget, published on 20 October 2020, included an additional £27m for the Higher Education Investment and Recovery Fund for Wales, as announced by the Minister on 22 July 2020 (see [here](#)), alongside a further £3m to support Degree Apprenticeships and £1.5m for Go Wales. The total resulting allocation for higher education reflected in the 2nd Supplementary Budget for 2020/21 was £193.4m.
- 1.3. Since then a further £10m has been allocated to higher education to support student mental health services and financial hardship funds, as announced by the Minister of 22 October 2020 (see [here](#)). This was included in the Remit Letter to HEFCW for 2020/21, confirming the overall HEFCW Revenue budget for the 2020/21 financial year as £203m.
- 1.4. Universities in Wales entered the pandemic with a heavy reliance on planned increases to base-line funding from the Diamond Review to achieve longer-term sustainability. The last

set of audited financial reports show that Welsh universities had a £1,628.2m turnover in 2018/19 but a £215.6m operating deficit, including one-off accounting adjustments in respect of pension schemes. Excluding these, the underlying position was a £13.7m deficit in 2018/19.

- 1.5. As reported by HEFCW, the reduction of income due to the first wave of the pandemic was in the region of £80-90 million by July 2020, primarily due to the loss of accommodation fees, the reduction in commercial services, and the loss of tuition fees, research funding and other income.
- 1.6. The key issue for higher education, however, is that the financial challenges facing higher education due to Covid-19 are yet to reach their peak. The impact for the 19/20 academic year was severe but only for one term, and institutions have taken steps to do as much as they can to reduce costs to mitigate the income reductions. The financial challenges for many institutions during the 20/21 and 21/22 academic years could be substantial.
- 1.7. The 2020/21 recruitment picture is mixed and has not yet settled.
- 1.8. The additional funding that HEFCW has been given in 2020-21 has supported recovery focused projects but, without increased recurrent annual funding, institutions will have to continue to reduce their cost base as employment costs continue to increase by more than the grant and fee income that institutions receive.
- 1.9. Even before the crisis, costs in the Welsh higher education sector have continued to increase faster than income. For example, employer contributions to the Teacher's Pension Scheme increased 44% in September 2019 as a result of decisions made by UK Government. Unlike other sectors, there has been no mitigation funding for this increase. The cost of pensions in particular is expected to increase significantly again from 21/22.
- 1.10. The UK support schemes for higher education have provided limited relief so far. The UK Government's (BEIS) Sustaining University Research expertise (SURE) scheme, for instance, is now likely to provide support as nearly all loan, so the grant funding that our research intensive institutions were expecting to receive from this fund is now not likely to be received. Future investment in new technology and facilities will be limited in the absence of capital grant funding.
- 1.11. While a number of schemes offer potential loan support, many institutions do not have capacity to borrow more money and it has to be recognised that those who do will need to make sure that they continue to make sufficient operating surpluses to cover the cost of the debt and have sufficient cash to repay the loans. Short term cost reductions have been made to estates maintenance plans and capital developments but the impact of these will start to show in the quality of the student facilities if the lack of funding continues.

1.12. The effective postponement to the planned increases in core funding leaves Welsh universities more vulnerable than their counterparts elsewhere in the UK. Research England, for instance, allocated the population-based equivalent of £126m to higher education institutions in England for research and innovation in 2020/21, including £97m for core ('QR') research funding (in comparison to £78m for QR in Wales). The Office for Students allocated the equivalent of £83m for teaching in England, including £75m recurrent teaching grant, in comparison to the £56m for allocated for full-time and part-time provision in Wales (before taking into account additional funding for COVID) – and it remains the case that universities in England are able to charge higher full-time undergraduate fees than in Wales, which gives them with an important additional resource.

2. Question 2: What expectations do you have of the 2020-21 draft budget proposals? How financially prepared is your organisation for the 2020-21 financial year, and how robust is your ability to plan for future years?

- 2.1. The planned increases to the core/base-line funding for higher education, implementing the Diamond Review recommendations, were identified as necessary to provide a sustainable financial basis for universities. Universities remain in a precarious period of transition until the planned increases are full implemented, and the adjustments due to the pandemic have meant that implementation for 2020/21 was effectively delayed.
- 2.2. The further impact for COVID-19 remains very unpredictable and universities continue to have to plan for significant financial risks and uncertainty. In particular, there are significant risks that the January intake of students is affected, and that there is further decrease in international student numbers.
- 2.3. Universities should have a major role to play in building economic resilience and recovery in their wider communities in the aftermath of the crisis, and there is great potential for the Welsh Government to target additional investment in ways that will enable universities to do this.
- 2.4. It is essential that the Welsh Government continues to implement the Diamond Review recommendations to increase the base-line/core resource and provide a stable and sustainable financial basis from which universities can extend their critical support and contribution to the wider economic recovery.
- 2.5. Our expectations are that the Welsh Government will continue to review the necessary support for universities that need it to weather the immediate crisis, bearing in mind that the major financial challenges for many institutions may come later in the year.
- 2.6. As part of this it will be important to fully implement the recommendations of Professor Graeme Reid's review of government-funded research and innovation as soon as possible.

3. Question 2: How do you think Welsh Government priorities for 2021-22 should change to respond to COVID-19?

3.1. We think that in relation to higher education, the Welsh Government consider prioritising further investment in the following areas which would enabling universities to have maximum impact in providing support for students, businesses and the economy in building economic resilience and driving recovery in Wales. These are:

3.2. *Employability, including apprenticeships*

3.3. We currently anticipate a severe shock to the labour market, with redundancies anticipated across many sectors, reduced opportunities for people leaving education and a very large rise in unemployment. Universities in Wales currently supply around 37,000 graduates a year, around 92% of whom enter employment or further training in the UK economy. They are major employers in their own right, responsible for employing nearly 17,000 full-time equivalent staff, and the combined expenditure of universities and their students whilst studying at Welsh universities also sustains around 35,000 further jobs in the Welsh economy, and supports further jobs through attracting visitors to Wales.

3.4. More people than ever will need to learn and adopt new skills and ways of working as we adapt to a 'new normal' and address structural change in the employment market including skills gaps and shortages. It will be essential to enable and support students to learn more flexibly than ever before.

3.5. Even before the COVID-19 outbreak, higher level skills and the ability to reskill/upskill throughout life had been identified as a crucial factor in preparing Wales to mitigate the risks of technological and workplace change and make the most of the opportunities presented. This is particularly important in Wales as we have a less well-qualified, older population than the UK as a whole.

3.6. It is essential that universities respond to changes in workforce requirements, providing the skills and graduates required in the new economy. Flexible learning opportunities and new modes of learning and delivery will be a critical for supporting economic recovery.

3.7. There are clear opportunities for further investment in degree apprenticeships which have proved a success in many areas. However, we need a step change in this area. Policies should build on the successful student support arrangements for part-time study in Wales and include increased investment in flexible modes of learning and delivery more generally.

3.8. *Research and innovation*

3.9. Investment in research and innovation should be among Wales's top priorities. Our universities are among the world leaders in science and research and have the highest percentage of 'world leading' research in terms of impact of any part of the UK. There is a

strong body of evidence to suggest that the success of Wales's economy in the long-term will above all depend on its ability to foster transformational research and innovation.

- 3.10. The COVID-19 pandemic in particular has thrown a spotlight on the importance of national and international research and collaboration - from developing a scientific understanding of the disease and its spread to developing vaccines and treatments, testing and tracing, with universities and research institutions working together across the UK including very important contributions from Wales. There are however many other challenges from global climate change to future health risks that equally rely on investment in research and innovation.
- 3.11. The evidence shows that researchers in Welsh universities punch above their weight in terms of their output, given their comparatively small share of UK funding. There are high potential returns on investment in Wales, levelling up the gap investment compared to the rest of the UK and building the capacity of their research and innovation structure around clusters of emerging strength. Wales for instance has significant strengths in areas including artificial intelligence and data, clean growth, advanced manufacturing and ageing society. Identified strengths in Wales also include engineering and advanced manufacturing, catalysis, food and agriculture, environment, life sciences and energy systems.
- 3.12. The implementation of the Reid Review's recommendations is needed now more than ever in the light of Brexit and the COVID-19 crisis. Universities in Wales must not miss major opportunities to capitalise on UK Government research and innovation funding and to bring additional income into Wales.
- 3.13. Wales also needs to maximise on its research potential by fostering networks and interconnection across the UK and internationally, enabling specialist expertise to be drawn together.
- 3.14. *COVID-19 related capital projects***
- 3.15. Further capital investment for specific capital projects and infrastructure improvement programmes could have a significant impact on universities, helping them to work in partnership with other sectors and education providers in response to the pandemic and to enable them to provide the necessary support students, businesses and the economy in the coming months.
- 3.16. While also dealing with the immediate challenges of the pandemic, there are significant opportunities for universities to transform its infrastructure in ways that will deliver long-term benefits to Wales and help it to emerge stronger from the crisis than before.
- 3.17. We would recommend reinstating further capital funding for higher education to support infrastructure change and meet significant upfront capital costs of delivering the

necessary changes to infrastructure and adaptation to the new learning landscape. In particular, we would recommend that universities work with HEFCW and the Welsh Government to identify areas for capital funding support including:

- Additional investment to support student mental health and well-being. In particular, the Welsh Government's £10m additional funding to HEFCW to support student mental health and wellbeing was welcomed by the sector. Using this funding, universities and students' unions have been able to develop and enhance their capacity to deal with increasing demand for student support during the pandemic. Extra staffing costs and programmes initiated as a result of the £10m funding have had tangible benefits for students across Wales. We would recommend that funding be provided in the 2021-22 Welsh Government budget to enable this support to continue given the continued demand we anticipate as a result of the ongoing pandemic.
- Potential expansions to current learning and teaching projects such as blended learning and vulnerable subjects, which will accelerate the support for student focussed measures and help protect opportunities for students to undertake strategically important subjects that are at increased risk due to the pandemic.
- Further capital investment in physical estates and physical infrastructure to enable the move to a low carbon economy and to accommodate a shift in learning delivery requirements and delivery of facilities and support for student welfare which continues to be a priority for universities.
- Expand and enhance digital and IT infrastructure to support the above.
- Expansion of digital capital/assets to support the above, including adaptation and development of new learning materials which enhance an on-line or mixed learning environment and enable flexible delivery and collaboration.

3.18. *International*

3.19. With our exit from the EU and impact of COVID-19, the UK government's international policies become more important than ever for universities and universities' international connections become more important than ever for governments.

3.20. University research and innovation relies heavily on our global interconnections, and ground-breaking discoveries and innovation are more often than not the result of teams of researchers working together across institutions and nations.

3.21. The ability of our universities to attract and interconnect with researchers, staff and students from around the world is part of what makes UK higher education world-class. Cultural exchange and awareness fosters tolerance and understanding within our

communities and an outward look strengthens participation and business activities on a global stage. Through their international activities universities also contribute a significant proportion of the inward investment for the UK's economy.

3.22. Welsh universities are well-placed to use further investment to deliver activities that provide solutions for the challenges posed for Welsh communities by exiting the EU and enable universities to continue to be a major source of inward investment in Wales.

3.23. While international student mobility and the conditions for attracting and retaining international staff and students remain so volatile, it is essential that Wales continues to invest in the networks and programmes that are most likely to secure Wales global presence in the shifting international landscape.

3.24. We recommend further investment in university international activity.

3.25. We also welcome the Welsh Government's continued support in seeking to shape appropriate UK policies. The mobility and international exchange of staff and students will remain key. Immigration policy and visa controls remain critical for the take up of study, particularly in the light of the COVID-19 pandemic. We must make sure EU and non-EU international students can still study in the UK following Covid-19 and Brexit, and the UK's policies must adapt and respond flexibly as required, firmly with the implications for higher education in sight. Specific schemes to support international exchange and mobility in higher education are also important.

4. Question 3: How financially prepared is your organisation for the 2021-22 financial year, and how can the budget give you more certainty in planning and managing budgets given the ongoing volatility and uncertainty?

4.1. Although universities have over many years demonstrated their ability to manage their financial affairs effectively, there are significant challenges in preparing for the year ahead in the light of COVID and Brexit, as discussed above.

4.2. The allocations and indicative allocations for future years contained in the Welsh Government Budgets are both very important in dealing with the uncertainty, particularly for higher education which deals in academic years and has to make decisions on its budgets partially based on future budget expectations.

4.3. Clearly, this year will be especially difficult for the Welsh Government for balancing planned investment with appropriate provision for unforeseen contingencies. In general, dealing with in-year reductions to funding can be very challenging and we would note that in-year budget reductions should be avoided as far as possible.

5. Question 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?.

5.1. We recognise the challenges that a rapid response to the COVID-19 crisis has presented for transparency in the allocation of budgets and their scrutiny. There may be opportunity in going forward for the Welsh Government to review its processes with stakeholders.

6. Question 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 to current Welsh Government borrowing within this Framework.

6.1. We recognise that the Barnett formula simply isn't designed to provide funding in support of the emergency situation we face, as demonstrated by the Wales Governance Centre's report on Covid-19 and the Welsh Government Budget. There may be benefits to the UK Government enabling greater fiscal flexibility, in particular, greater access to the Wales Reserve this year, relaxation of borrowing limits and greater scope to switch between revenue and capital budgets.

7. Question 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 2021-22 budget?

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

7.1. For our recommendations see our response to Q.2 above in particular. Universities should play a significant role building economic resilience and driving recovery in Wales and managing Brexit, and we recommend in particular further investment in:

- Employability, including degree apprenticeships
- Research and innovation
- COVID-19 related capital projects, supporting the move the low-carbon economy and green agenda as well as supporting the shift to new patterns of learning delivery and student support including a focus on mental health and student welfare.
- Strengthening international networks and programmes

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

7.2. It is essential to keep a focus on measures that will alleviate climate change. The pandemic represents both opportunities and challenges in this regard, and Wales has an opportunity to

take a lead role. In particular, it has genuine, significant strengths in universities in research and innovation to address issues related with climate change, and there are great opportunities – as outlined above – to capitalise on UK investment if further support can be found for universities.

- Welsh Government policies to reduce poverty and gender inequality.

- 7.3. Universities play a major role in levelling up social and economic disadvantage. They provide vital opportunities for individuals that can transform their life-time prospects and transcend social and economic barriers. They stimulate and support economic resilience, recovery and growth in their regions and beyond through the supply of vital skills and training.
- 7.4. Recent evidence from the OECD, for instance, identified that the UK's regional disparities in labour productivity are among the starkest in the OECD. The wealthiest top 10% of UK regions currently exhibit a gross domestic product (GDP) per capita close to five times higher than the bottom 10% of UK regions – 4 out of 12 of which are in Wales.
- 7.5. As noted above, it is essential that universities respond to changes in workforce requirements, providing the skills and graduates required in the new economy. Flexible learning opportunities and new modes of learning and delivery will be a critical for supporting economic recovery.
- 7.6. There are clear opportunities for further investment in degree apprenticeships which have proved a success in many areas. However, we need a step change in this area. Policies should build on the successful student support arrangements for part-time study in Wales and include increased investment in flexible modes of learning and delivery more generally.

- 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)

- 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.**
- Support for businesses. economic growth and agriculture after EU transition ends.**

- 7.7. Universities will have a significant role in supporting businesses and economic growth after the EU transition ends. See our comments on employability under Question 3 above.
- 7.8. More people than ever will need to learn and adopt new skills and ways of working as we adapt to a 'new normal' and address structural change in the employment market including skills gaps and shortages. It will be essential to enable and support students to learn more

flexibly than ever before.

7.9. Brexit could have a very significant impact for Wales and the levelling up agenda, seeking to provide greater social and disparity for communities throughout Wales will remain critical. Above all the UK Government must deliver on its commitment to ensuring that Wales will not receive less funding than it received under the EU. Since 2014, for instance, Welsh universities have received more than £280m in structural funding which has supported universities in driving economic growth, creating jobs, and delivering research and innovation. The UK's withdrawal from the European Union means that the benefit this investment has brought to Wales is at risk.

7.10. Universities' wider contribution to civic mission and for their communities should also not be underestimated. Universities are committed to supporting the health and wellbeing of our communities by providing the best quality training for the next generation of healthcare workers, social workers and teachers. We will also enrich our communities through access to museums, the arts and sports facilities, and play a role within communities as places to meet, learn and debate.

7.11. The pandemic, for instance, has thrown a spot light on how universities in Wales have provided vital support for local health boards, the NHS and their local communities making laboratories, facilities, accommodation and further research resources available to the NHS, producing PPE and other equipment, developing testing, and helping to prepare and train-up key workers and fast-tracking training of medical students in support. A wealth of tangible examples of Welsh universities' civic response to COVID-19 are provided in the Universities Wales report (see [here](#)).

- What are the key opportunities for Government investment to support 'building back better' (i.e. supporting an economy and public services that better deliver against the well-being goals in the Well-being of Future Generations Act)

7.12. Despite the challenges of the COVID-19, the pandemic also presents significant opportunities to build Wales back better than before. There are key opportunities, for instance, to invest in the underpinning infrastructure that will drive future growth and opportunities in Wales and to make a decisive investment in digital and low-carbon/green economies, and support for mental health and well-being.

7.13. There are opportunities for Wales to further invest in its universities as a key part of its underpinning national infrastructure. Investment in higher education is above all associated with driving long-term economic growth. Welsh universities' world-leading research and innovation drives technological transformation and is instrumental in shifting towards a knowledge-based economy. Universities are essential in providing a skilled graduate workforce which is able to thrive despite the changes in the economy, and the

economic impact of Welsh universities generates nearly 50,000 jobs across Wales. Universities also have a crucial role in tackling social disadvantage and the levelling up agenda, with universities acting as magnets for investment and supporting their communities and providing transformative opportunities for individuals. As a devolved nation, investment in higher education remains one of the few and most important economic levers of long-term growth at Wales disposal.

- 7.14. There are key opportunities to make decisive changes to the low-carbon economy and green agenda in Wales in the light of the pandemic. Universities play a key part in the delivery of the well-being and future generations with their world-class research an innovation helping to the drive the agenda including a healthier, greener and more sustainable environment. Real world applications include areas such as bilingualism, policing, flooding, dementia, childcare, mental health, public housing, and community violence.
- 7.15. As identified above in response to question 3, there also key opportunities to invest in support for mental health and well-being in the light of the pandemic.

Universities Wales
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