

A Picture of Higher and Further Education

Report of the Auditor
General for Wales

October 2021



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Mae'r ddogfen hon hefyd ar gael yn Gymraeg.

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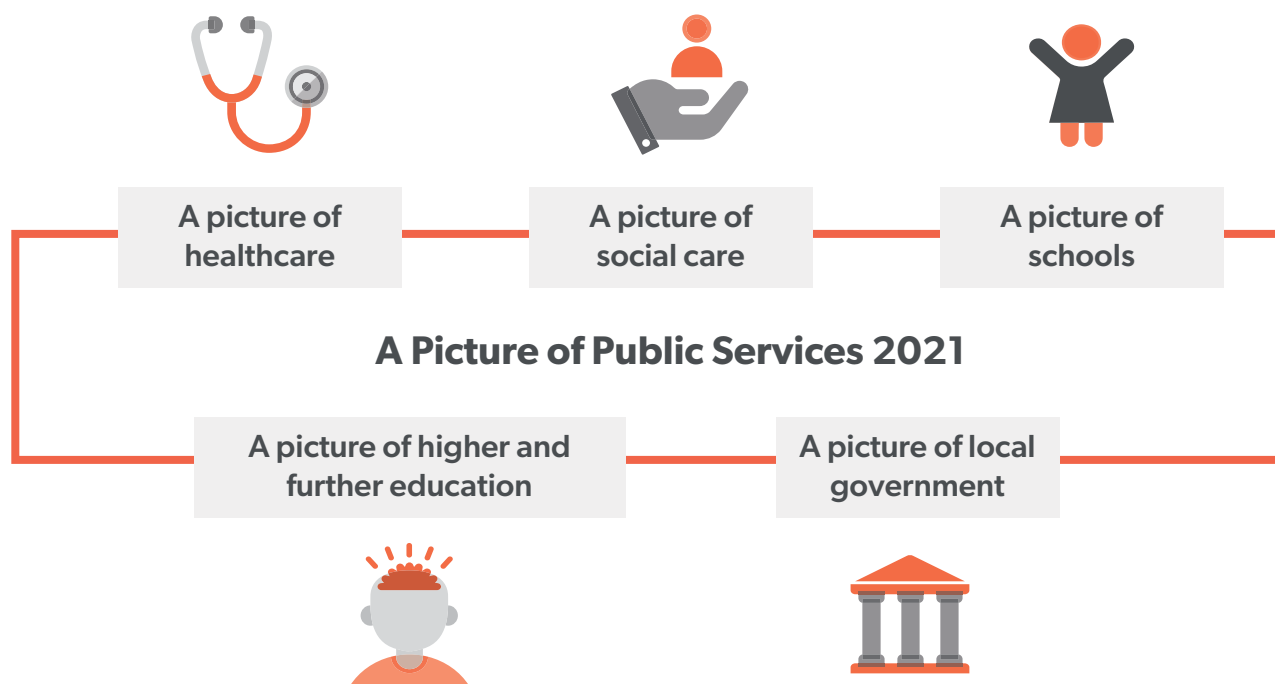
About this report

This report is part of a series of Picture of Public Services 2021 outputs. Our main Picture of Public Services 2021 report summarises some of the key trends in public finances and sets out our perspective on some of the key issues for future service delivery.

This report summarises key information about higher and further education in Wales including the strategic operating context and funding. It explores capacity in the sector, performance, and key issues or challenges in our view. We also discuss aspects of education in A Picture of Schools.

This report is not intended to be comprehensive. It sets out what we consider to be some of the key issues for higher and further education, recognising that other commentators and review bodies will have their own perspective on the key issues. Where possible we have drawn on data that covers similar issues or themes in both higher and further education. However, this report is not intended as a comparison between the two sectors.

The report is based on a synthesis of our published work as well as research by other organisations. It uses data covering a mix of financial and academic years¹.



¹ We identify financial years, which run from 1 April to 31 March as, for example 2019-20. We identify academic years, from 1 August to 31 July as, for example, 2019/20.

Main report

Higher and further education context

Delivering higher and further education in challenging times

- 1 The COVID-19 pandemic has presented enormous challenges to public services and the people who deliver them. In higher and further education, staff and students have had to adapt to the challenges of online learning and face-to-face teaching in COVID-safe environments. All of us at Audit Wales pay tribute to the dedication and extraordinary efforts of public servants during this difficult period.
- 2 At the time this report was written, the direct impacts of COVID-19 were still being felt. Work to understand the indirect impacts of COVID-19 had begun, but it was too early to gauge the scale and extent of these impacts. Despite the significant challenges ahead, there are opportunities to rebuild and deliver services differently, learning from the collective response to COVID-19.

Structures and responsibilities

- 3 The Welsh Government sets the overall policy and direction for post-compulsory education in Wales (**Exhibit 1**). Wales has eight universities and thirteen further education colleges, in addition to The Open University. There are also several providers of work-based learning and other post-16 training and education in Wales. Higher education (HE) and further education (FE) institutions are legally independent of government. They are not part of the public sector. Most are registered charities. Nonetheless, many aspects of their operation are subject to government regulation² and are supported by public funding.

2 The Higher Education Funding Council for Wales (HEFCW) is primarily responsible for the regulation of HE institutions; the Welsh Government is the principal regulator for FE.

Exhibit 1: post-compulsory education in Wales

Higher education (HE): a type of education that usually concludes with the awarding of a degree or diploma at level 4 of the CFQW³ or above. This includes foundation and undergraduate bachelor's degrees, as well as postgraduate degrees, such as master's degrees and PhDs. It also includes other qualifications, such as Higher National Diplomas (HNDs) or degree apprenticeships. The HE structure is similar to England, but has significant differences to Northern Ireland and Scotland. HE courses are typically studied in universities but sometimes in further education colleges.

Further education (FE) is any post-compulsory education that is not HE. FE students study towards technical and vocational qualifications, such as NVQs and BTECs, as well as general qualifications, such as A levels. This FE structure is identical to the system in England and Northern Ireland and similar to that in Scotland.

Higher and further education strategy

Overall approach

- 4 There is no single document setting out the Welsh Government's detailed strategy on post-compulsory education and skills. The Welsh Government's strategic approach has emerged from a range of reviews and studies⁴ and reflects financial constraints and policy developments at the UK level. It forms part of the wider context of reform in pre-16 compulsory education⁵. The Welsh Government has also sought to integrate its approach with wider policy agendas on economic development and equality under the framework of the Well-being of Future Generations Act.

4 Reviews, studies, and plans are published on the Welsh Government's website.

5 Our report A Picture of Schools sets out some of the key aspects of the reform of compulsory education in Wales.

- 5 'Build ambition and encourage learning for life' is one of four headline objectives in the previous Welsh Government's action plan for the economy⁶. The Welsh Government's broad aim is to promote and enhance academic and vocational routes into higher and further education to equip learners with the skills needed for future careers. The Welsh Government also aims to co-ordinate research and innovation to enable institutions to make local, national, and international impacts. The Welsh Government has recently published a strategic vision⁷ with principles for change. Key objectives of the approach include:
- to **increase the economic activity rate** by intervening to help people enter the labour market;
 - to **raise qualification levels** across the workforce and ensure that qualifications meet the needs of a changing economy;
 - to provide **clear pathways** from one level of skill to another, across all parts of the education and training system, and removing artificial boundaries between academic and vocational routes;
 - to promote **lifelong learning** and widen access to skills provision throughout life;
 - to increase **Welsh-medium provision** in FE and to a lesser extent in HE;
 - to **simplify and integrate government interventions** so they provide an effective and streamlined system for individuals and businesses to get the support they need, with strong collaboration between stakeholders; and
 - to bring together all **research funding** and ensure that funding decisions reflect Welsh priorities, including the needs of the national and regional economic sectors.

6 Welsh Government, Prosperity for All: Economic Action Plan, December 2017

7 Welsh Government, Post-Compulsory Education and Training: Strategic Vision, November 2020

- 6 To achieve these objectives, the Welsh Government has sought to make use of available funding in a context of financial constraint:
- as recommended by the Diamond Review⁸ in 2016, HE students now pay tuition fees primarily through loans, with maintenance grants for living costs provided to some students. This replaced tuition fee grants.
 - there is a policy of co-investment in skills; public funding is focused on under-25s and higher-level skills, with employers expected to fund other training and development that benefits their businesses.
 - making use of public sector procurement to increase skills provision, for example, by requiring contractors to provide training as a condition of higher value construction contracts.
- 7 Following the recommendations of the Hazelkorn Review⁹ in 2016, the Welsh Government intends to create a new, autonomous public body to administer the whole of the post-16 education and training system, including HE, FE and vocational training. The Commission for Tertiary Education and Research (CTER) would fund, regulate and co-ordinate the sector and take on the relevant responsibilities of HEFCW and the Welsh Government. The Commission will be functionally independent, but will operate on the basis of a five-year strategic plan approved by Ministers. The Welsh Government has consulted on draft legislation¹⁰ prior to consideration by the Senedd and intends that the CTER will come into existence in 2023.

COVID-19 response

- 8 As with compulsory education, learning in the post-compulsory sector moved online during the initial response to the pandemic. As restrictions allowed, learning transitioned to a 'blended' approach of in-person and online teaching. In the autumn of 2020, practical elements of vocational qualifications were brought forward in anticipation of a winter wave of COVID-19.
- 9 In May 2020, as a response to the COVID-19 pandemic the Welsh Government published a Resilience Plan for the post-16 sector¹¹. This identified priority groups for support, planned co-ordination with local schools and identified the risks of learners not having access to technology for learning.

8 Diamond Review Panel, The Review of Higher Education Funding and Student Finance Arrangements in Wales, September 2016

9 Welsh Government, Taking Wales Forward, May 2016

10 Draft Tertiary Education and Research (Wales) Bill, December 2020

11 Welsh Government, Covid-19: Resilience Plan for the Post-16 Sector, May 2020

- 10 The Resilience Plan was divided into three stages:
- **Rescue:** making sure providers had security and funding and adequate arrangements to continue learning. The Welsh Government suspended the collection of FE and adult learning performance statistics, Estyn suspended inspections of FE colleges and HEFCW eased several of its regulatory requirements.
 - **Review:** planning for potential changes to provision and funding once the rescue phase was over. The plan anticipated a phased return to face-to-face learning, a decline in international student numbers and an increase in unemployment leading to a rise in demand for support services.
 - **Renew:** revised arrangements for the following academic year and evaluating the impact of COVID-19. This phase will include planning to meet the changing needs of the economy, reviewing commissioning and funding approaches and potentially embedding positive aspects of the pandemic response, including digital learning.
- 11 The Welsh Government has provided additional funding to support the FE and HE sectors. Packages of £27 million and £23 million were provided to HE and FE respectively in July 2020, followed by an additional £95.5 million for HE later in 2020-21, of which £50 million was for student welfare services and students facing financial hardship, £1.5 million to provide work experience for recent graduates and £44 million for capital spending by universities.

Future plans

- 12 The 2021-2026 Programme for Government¹² includes a 'Young Persons Guarantee', which would guarantee all under-25s the offer of work, education, training, or self-employment. The Programme also includes a commitment to pass the draft legislation prepared in the previous Senedd, policies to promote parity between academic and vocational routes, a target to create 125,000 apprenticeships and a review of adult education to increase participation.

12 Welsh Government, Programme for Government, June 2021

Higher and further education finances

Higher education finances

- 13 Welsh Government spending for HE is mainly in the form of two funding streams:
- **Student support** funding in the form of **loans** and **grants**.
 - **Grants directly to universities** from HEFCW for teaching, research and specific priorities.
- 14 Most of the funding is for student support, in the form of loans or maintenance grants to support them wherever they study (**Exhibit 2**). Our report on student finances¹³ shows that the total annual financial support provided by the Welsh Government to students in HE has increased by 24% in real terms since 2015-16, reaching almost £1.1 billion in 2019-20. Following the Diamond Review, the balance between grants and loans has shifted as the Welsh Government focused its grants on supporting students with living costs, rather than tuition fees. The Welsh Government grant funding of £386 million in 2019-20 was 13% lower than 2015-16 in real terms. Over the same period, grants decreased from 51% to 36% of the financial support provided by the Welsh Government.

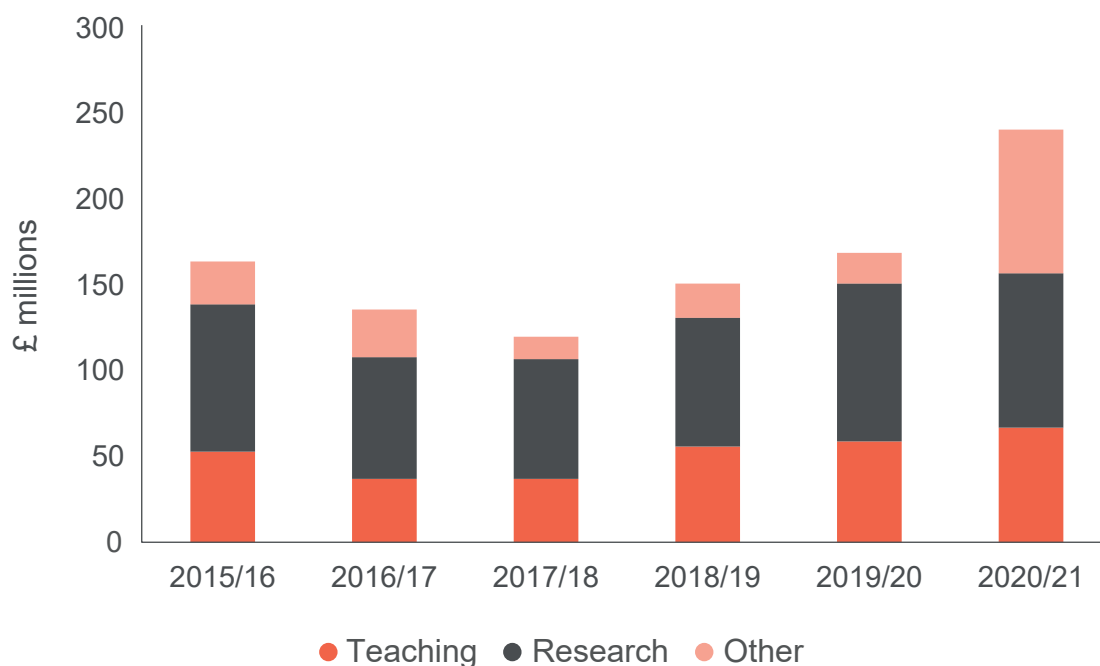
Exhibit 2: tuition fees and student loans

Universities charge tuition fees for students. In Wales, tuition fees for undergraduate courses are currently capped at £9,000 a year for UK students. There is no cap for international students, including those from the EU.

Our recent report on student finances describes the system of student finances for Welsh domiciled students. The report outlines some of the eligibility criteria, mix of grants and loans, and repayment thresholds. In 2019-20, the Welsh Government estimated that for every pound that is loaned to students, 65p will be recovered. Most Welsh-domiciled students go to Welsh universities; around 30% go to England and 1% to Scotland or Northern Ireland.

- 15 Welsh universities also receive grants from HEFCW (funded by the Welsh Government) for teaching, research and other specified priorities, which may vary from year to year. Teaching grants fell substantially between 2011/12 and 2015/16 as Welsh Government funding shifted to support the policy of higher tuition fees and the introduction of the Tuition Fee Grant in 2012/13. Teaching grants continued to fall to 2017/18 but have since increased (**Exhibit 3**). Research and other grants fell between 2015/16 and 2017/18 but have risen in recent years, with a substantial increase in other grants in 2020/21 due to COVID-19-related funding. Universities also receive research grants from other public sources and raise their own income from commercial sources.

Exhibit 3: HEFCW allocations for research, teaching, and other initiatives, 2011/12 to 2020/21 (real-terms 2019-20 prices)



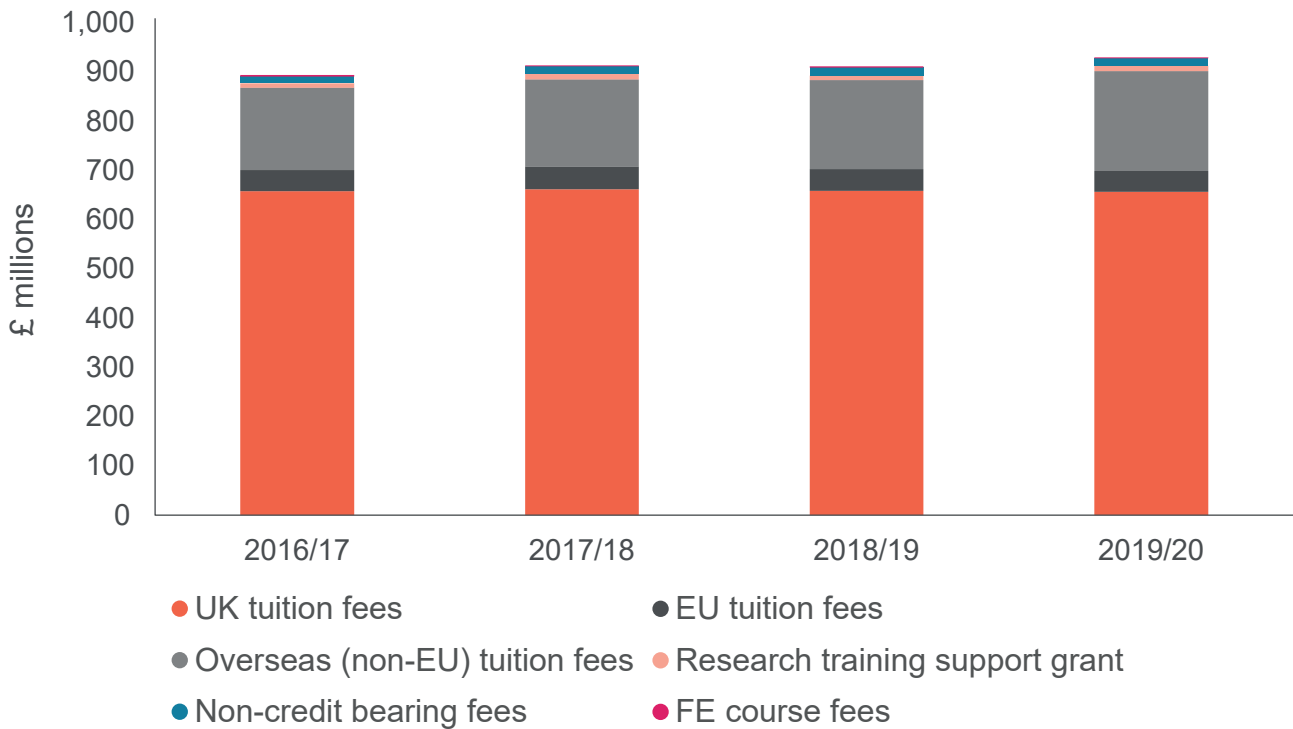
Notes:

- 1 HEFCW reduced its planned total funding allocations to universities by £26 million in 2016/17, £24 million in 2017/18 and £13 million in 2018/19, due to budget constraints. HEFCW did not stipulate which specific funding allocations should be cut, nor does it hold information on how the overall reductions were distributed by universities. The chart assumes that the reduction was applied proportionately to each type of grant.
- 2 In 2020/21, HEFCW distributed £78.5 million (£73.3 million in real terms) of additional funding to alleviate the impact of COVID-19, much of it for student support. This funding is included in the 'Other' category.

Source: Audit Wales analysis of HEFCW funding allocations

16 The total income of Welsh universities has been relatively stable in real terms at around £1.6 billion a year between 2015/16 and 2019/20. However, it dropped by 4% in 2019/20 when the COVID-19 pandemic took hold due to a loss of income from sources such as conferences and residential fees. Welsh universities have a diverse funding base. The majority of Welsh universities’ income comes from tuition fee and support grants, which were worth around £0.9 billion in 2019/20 (**Exhibit 4**). Most tuition fee funding comes from UK students. International students accounted for 26% of tuition fee income in 2019-20, with EU students accounting for a relatively small proportion of this income¹⁴. Fees for international students are typically significantly higher than those of UK students.

Exhibit 4: all Welsh university tuition fee and support grant income, 2016/17 to 2019/20 (real-terms 2019-20 prices)



Note: Non-credit bearing fees relate to activities that students are required to complete but do not carry credit towards their degrees. FE course fees are income for the provision of FE and non-advanced courses provided by a university.

Source: Audit Wales analysis of Higher Education Statistics Agency data

14 EU students were charged the same tuition fees as UK students until the end of the 2020/21 academic year.

Further education finances

- 17 The Welsh Government funds the majority of FE costs through grants to colleges for delivering learning programmes to eligible students, as well as grants for adult learning and payments to contractors administering apprenticeships. The Welsh Government also funds programmes designed to help people into the labour market, including Jobs Growth Wales and interventions to help those who are further from the labour market, such as the Youth Engagement and Progression Framework for 14 to 24-year-olds.
- 18 Welsh Government funding for FE is split between various funding streams (**Exhibit 5**). These include core funding¹⁵ for FE colleges and school sixth forms, which is linked to learner numbers and has remained broadly stable since 2016/17. The Welsh Government provided additional funding in 2020-21 due to the COVID-19 pandemic (**paragraph 11**). Between 2011/12 and 2016/17, core revenue funding for FE colleges fell by 13%¹⁶, which was entirely due to reductions in funding for part-time provision. The overall real terms value of core funding for FE colleges has remained broadly static since then¹⁷. The Welsh Government provides around £5 million a year to local authorities for adult community learning and around £120 million a year to work-based learning providers¹⁸.

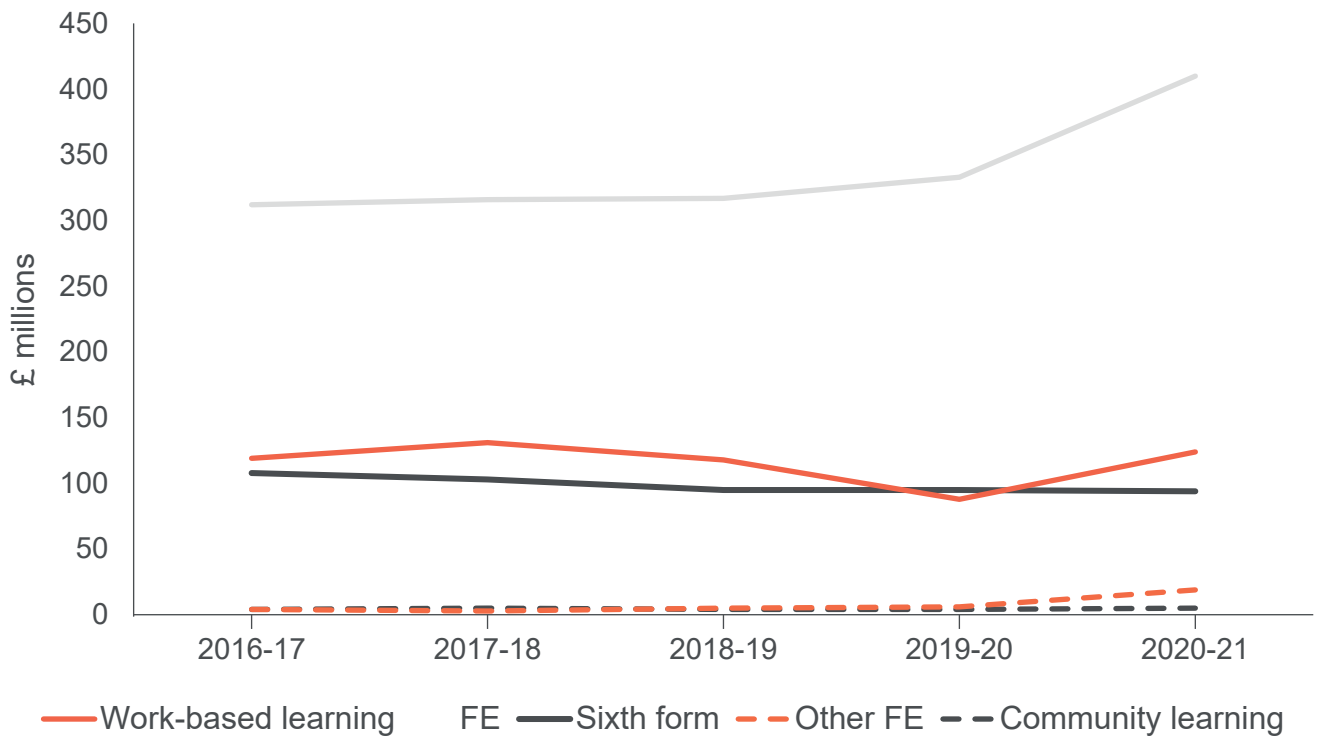
15 Allocations are provided on the Welsh Government's website.

16 Auditor General for Wales, Welsh Government oversight of further-education colleges' finances and delivery, February 2017

17 The Welsh Government has adjusted the funding formula for individual institutions to better reflect demographic changes between the colleges' catchment areas, which may have resulted in changes to the funding levels for some institutions.

18 Contracts are awarded to providers based on a specification and guidance published by the Welsh Government. Current guidance covered the period 2015-2021 and contract details are published on the Welsh Government's website.

Exhibit 5: further education, community learning, sixth form, work-based learning and other FE-related Welsh Government funding, 2016-17 to 2020-21 (real-terms 2019-20 prices)



Note: The final budget of the year has been used for each amount. Other FE-related spending includes investments, Erasmus, and mental health projects.

Source: Welsh Government

Higher and further education performance

- 19 There are a range of measures of performance across HE and FE. In HE, HEFCW publishes data on widening access, student experience, skills and employability, and research¹⁹. The Welsh Government publishes performance data on the FE sector annually²⁰ including data on completion, success, demographics, and deprivation. We have selected performance data that gives a broad picture of both sectors. We have also sought to include the students' perspectives from survey data.

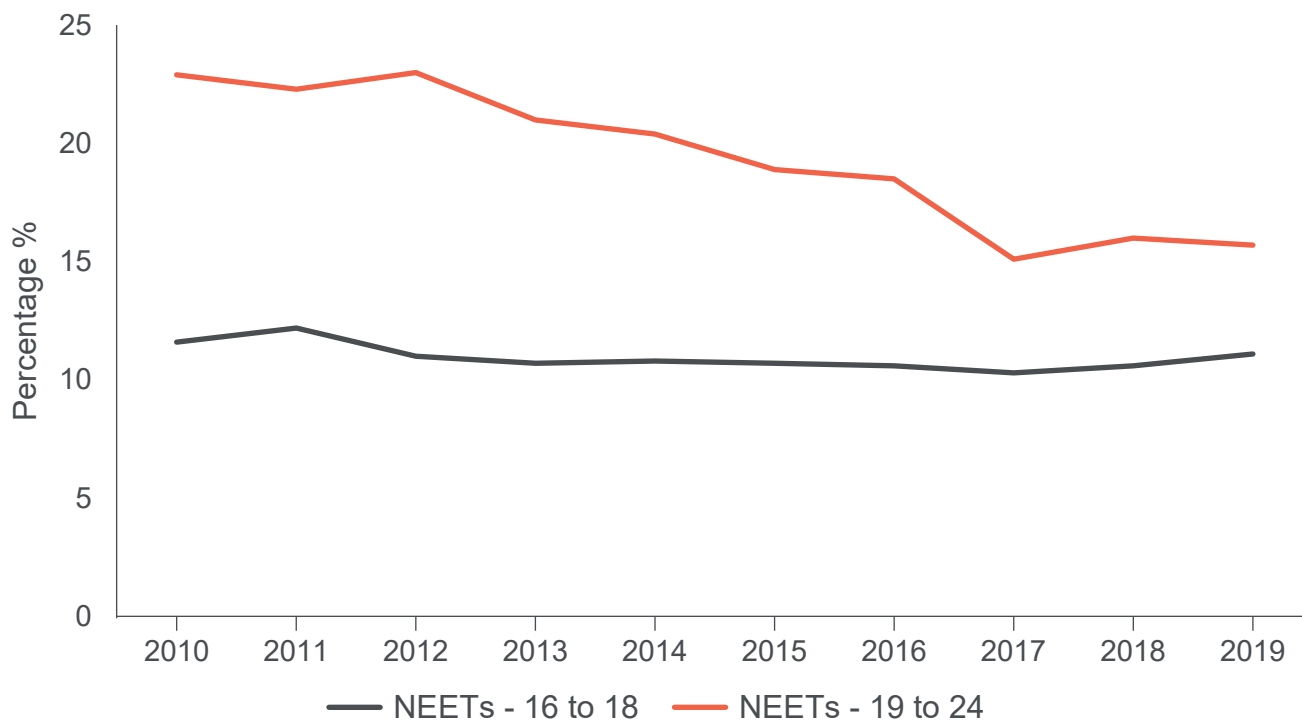
Ambitions for the economy, skills and participation form the wider context for HE and FE performance

- 20 The Welsh Government's Employability Plan (2018) has targets to close the gap with the UK average on three measures: unemployment, economic inactivity and qualifications levels of the working age population. While there has been steady improvement in all three measures since 2010, the gap with the UK average for the proportion of the working age population qualified at levels 2, 3 and 4 has widened. In contrast, the gap for economic inactivity has declined and unemployment was lower than the UK average at the end of 2019.
- 21 Youth engagement has been a priority of the Welsh Government for some time. The estimated levels of young people aged between 16 and 18 years old not in education, employment, or training (referred to as NEETs) have broadly remained consistent over the past decade (**Exhibit 6**). Rates of NEETs aged 19 to 24 years old have fallen significantly since the high point in 2012.

19 These are published annually, see: HEFCW, National measures 2018/19 – summary, December 2020

20 Welsh Government, Consistent performance measures for post-16 learning: Achievement, August 2018 to July 2019, February 2020

Exhibit 6: estimated percentage of 16 to 24-year-olds not in education, training, or employment in Wales, 2010 to 2019



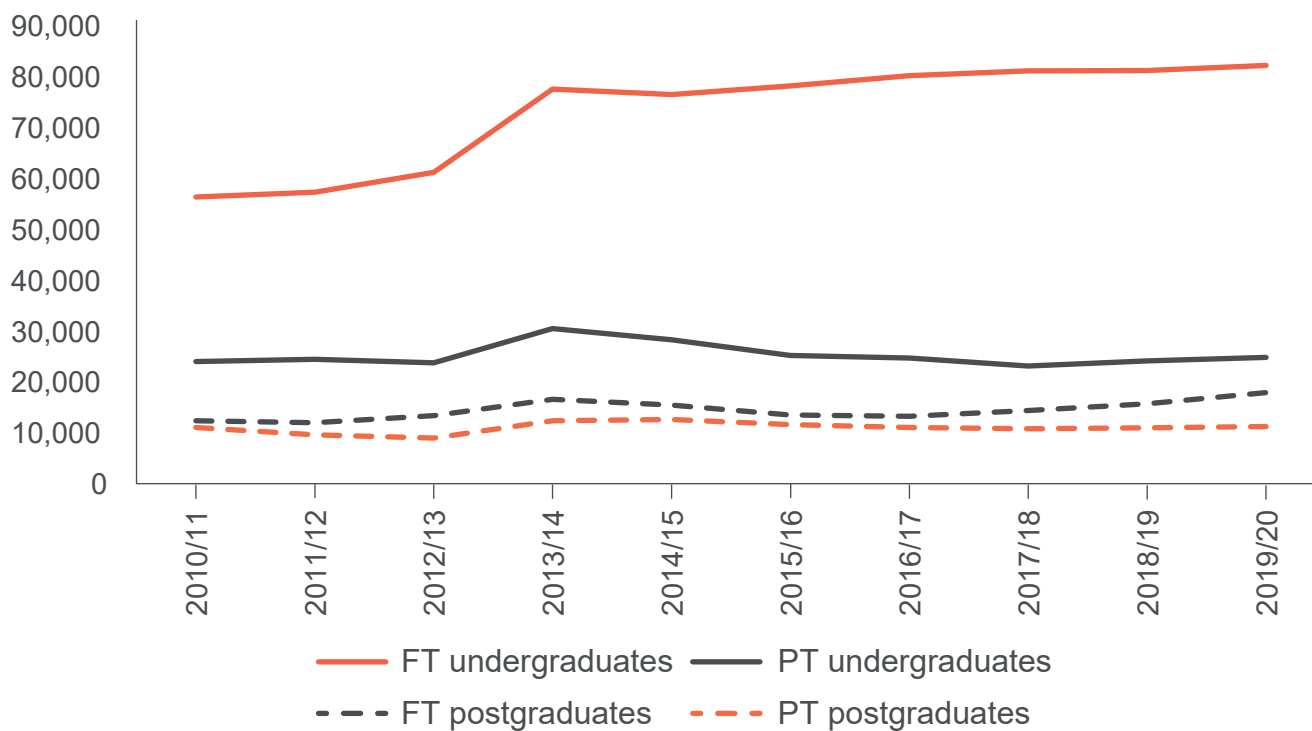
Source: StatsWales

Student enrolment in full-time higher education has increased, while part-time study in both higher and further education has decreased significantly

22 Overall, HE student enrolment increased by around 32,500 (31%) between 2010/11 and 2019/20 (**Exhibit 7**). Much of that increase occurred in 2013/14. Full-time undergraduate enrolment has increased every year. Part-time enrolment has fallen since 2013/14. Amongst part-time students there has been a pattern of rising enrolments with the Open University compared with reductions in other institutions. HEFCW data shows that the number and proportion of undergraduates coming from more deprived areas²¹ and from ethnic minorities increased between 2016/17 and 2018/19.

21 HEFCW reports on the number and proportion of undergraduates coming from the bottom fifth and bottom two-fifths of areas as ranked by the 2014 Welsh Index of Multiple Deprivation.

Exhibit 7: student enrolments in Wales by level and mode of study, 2010/11 to 2019/20

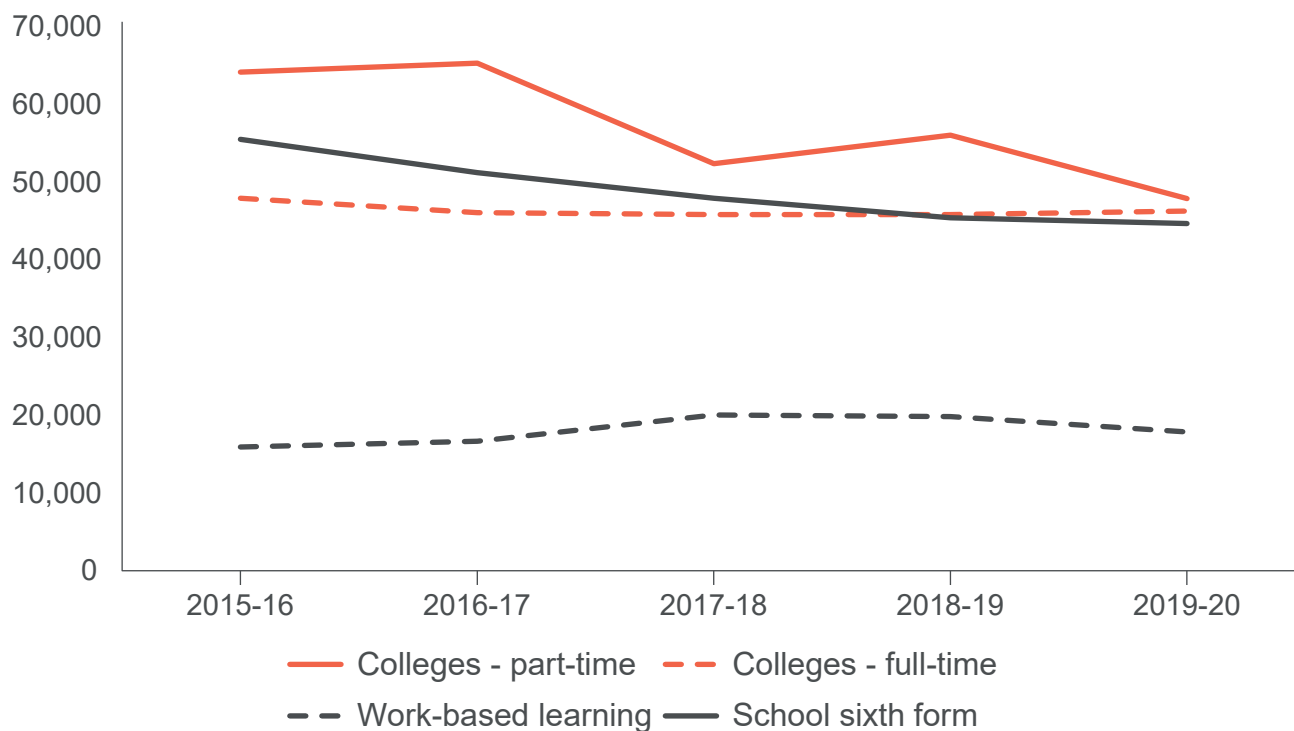


Note: We have included data on the Open University in Wales for part-time students. Data for full-time Open University students is not regularly published by StatsWales due to the data being 'disclosive or not sufficiently robust for publication'.

Source: StatsWales

23 The number of full-time learners in FE colleges and sixth forms has been stable while the number of part-time learners has fallen considerably, continuing a trend since 2010 (**Exhibit 8**). The Welsh Government has prioritised funding for full-time provision in line with the statutory duty to make reasonable provision for 16 to 19-year-old learners. The number of work-based learners (mainly apprentices) has risen slightly, and the Welsh Government has met its target to deliver 100,000 all-age apprenticeships over the five-year Senedd to 2021. However, there is likely to be a short-term reduction in new apprenticeships due to the disruption caused by the COVID-19 pandemic.

Exhibit 8: unique learners enrolled at further education institutions and school sixth forms, 2015-16 to 2019-20



Source: StatsWales

24 Retention rates in HE have been stable for full-time students, with around 6% of students under 21 leaving their course early each year, compared with 11 to 12% of students aged over 21 between 2014/15 and 2018/19. Retention rates were much lower for part-time students; around 33% of students under 30 left their course early in 2017-18, and 31% of students over 30 did so. However, there has been significant improvement for both part-time age groups since 2014/15, where rates were 43% for under-30s and 37% for mature students.

Academic attainment gradually increased, while vocational achievement rates were stable before the pandemic, but the pandemic has resulted in differing outcomes depending on qualification

- 25 Welsh universities have increasingly awarded first-class honours to students: the proportion rose from 22% in 2015/16 to 28% in 2018/19 and a sharper increase to 35% in 2019/20. Around half of graduates gained upper second-class honours throughout the period, with a downwards trend in lower second-class honours. This trend is consistent across part and full-time study. These trends in Wales broadly mirror patterns across the UK although part-time students in Welsh universities tend to have higher awards than the UK average.
- 26 The Higher Education Statistics Authority (HESA) has conducted two graduate outcomes surveys for graduates from 2017/18 and 2018/19²². It found that 61% of undergraduates from Welsh universities were in work when surveyed after graduation – down 4% since 2017/18. The survey found that 25% were in further study and 8% were unemployed – up from 23% and 5% respectively. HESA notes that the 2018/19 survey was conducted during the pandemic and this may have affected responses.
- 27 Around 30% of A-level students attend FE colleges for their studies²³. Qualifications Wales data shows that achievement in FE colleges has improved gradually since 2016²⁴. In 2016, 74.0% of results achieved an A*-C compared to 77.8% by 2019. Consistently around 98% of A Levels were passed (grade A* to G) over the same period. In 2020, students in FE colleges had a large increase in A-level grades, following the move to centre-assessed grades due to the pandemic²⁵. Some 92% got A* to C and 38% got an A or A*. This large increase mirrored the trend in schools.

22 HESA, Higher Education Graduate Outcomes Statistics: UK, 2018/19 – Graduate activities and characteristics, July 2021

23 Most A-level teaching takes place in schools, which also provide some vocational courses (Estyn, Post-16 Partnerships: shared planning and provision between schools and between schools and colleges, 2021).

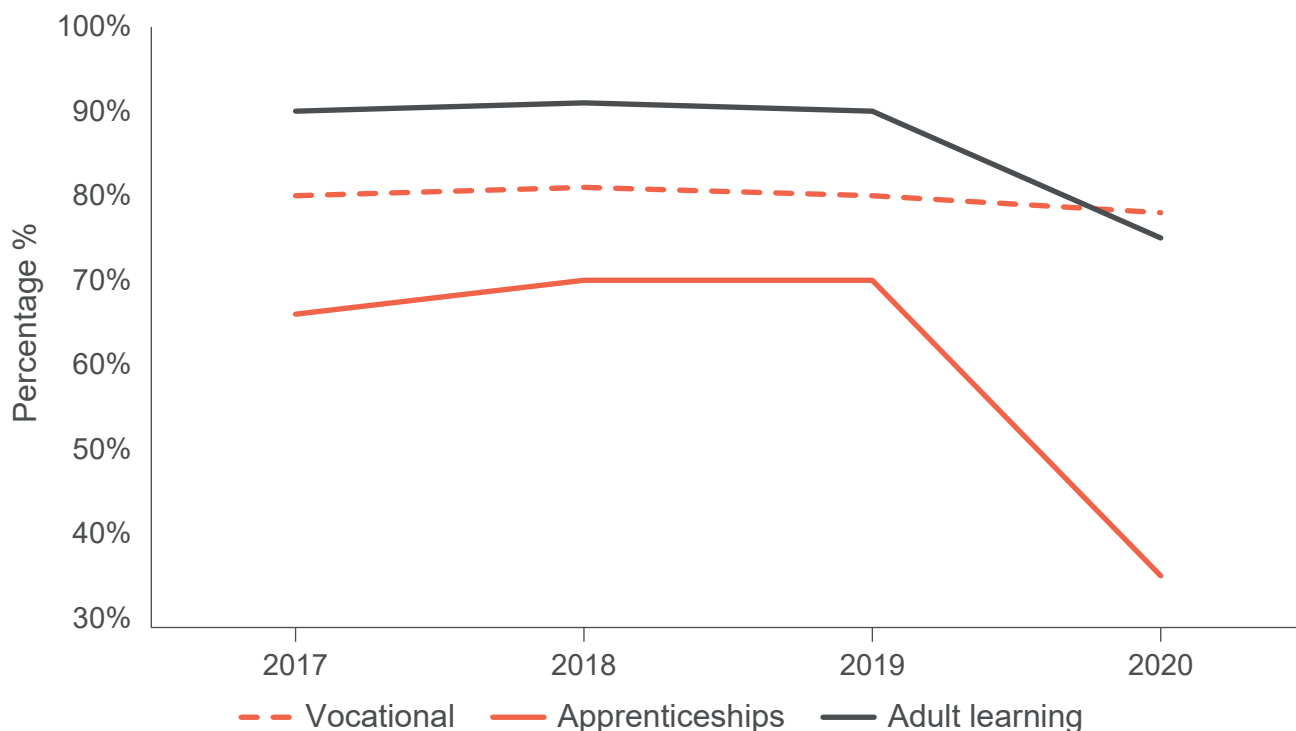
24 Qualifications Wales, Variation in GCSE, AS and A level qualification results in Wales, Summer 2020, October 2020

25 Centre assessed grades were based on the teachers' professional assessment of what the pupil would have achieved if they were able to sit an examination. Teachers could use any criteria they wished when estimating grades including (but not limited to) completed course work, mock exams or previous academic achievement.

28 Achievement (pass) rates were consistent in the pre-pandemic period (**Exhibit 9**). However, in general the COVID-19 pandemic has resulted in lower achievement rates for a variety of reasons. The achievement rate for apprenticeships halved from 70% in 2019 to 35% in 2020. Another 29% of apprenticeships are continuing beyond the expected end date to allow time for delayed practical experience, but 36% ended without the required outcomes being achieved²⁶. This is a substantial increase on the 15% in previous years and reflects the difficulties delivering work-based learning during the pandemic. According to Estyn²⁷, these difficulties included:

- the challenge of conducting practical teaching and assessments online;
- the closure of businesses that provided apprenticeships and work experience; and
- in some cases, the reluctance of awarding bodies to change assessment methods sufficiently to avoid delays.

Exhibit 9: achievement rates for post-compulsory education students, 2017 to 2020



Source: Welsh Government

26 Some of these apprentices may have achieved the necessary learning but their provider was waiting for confirmation of their results when the data was collected.

27 Estyn, Developments in Remote and Blended Learning Practice, 2021.

- 29 For vocational qualifications, the picture was mixed. The pass rate for level 3 vocational qualifications (A-level standard) rose from 81% in 2019 to 85% in 2020. Pass rates for lower-level qualifications fell sharply; for example, by 9% for level 2 qualifications.
- 30 Completion rates for vocational courses²⁸ were around 88% for vocational learners and 75% for apprenticeships in the pre-pandemic period. The rate fell slightly to 85% in 2020 for vocational qualifications and fell sharply to 52% for apprenticeships because the pandemic made it difficult to provide essential practical experience in the workplace. The impact varied by sector, with health and social care, hair and beauty and construction particularly badly affected. Measuring completion rates for A-Levels is complicated by the fact that some students don't progress to year 2 after getting their AS level at the end of year 1. Of those that started year 2, completion rates have been stable at around 95%, while the completion rate for the full two-year A-level programme was 72% in 2019, the last year for which statistics were collected on a consistent basis across both schools and FE colleges²⁹.

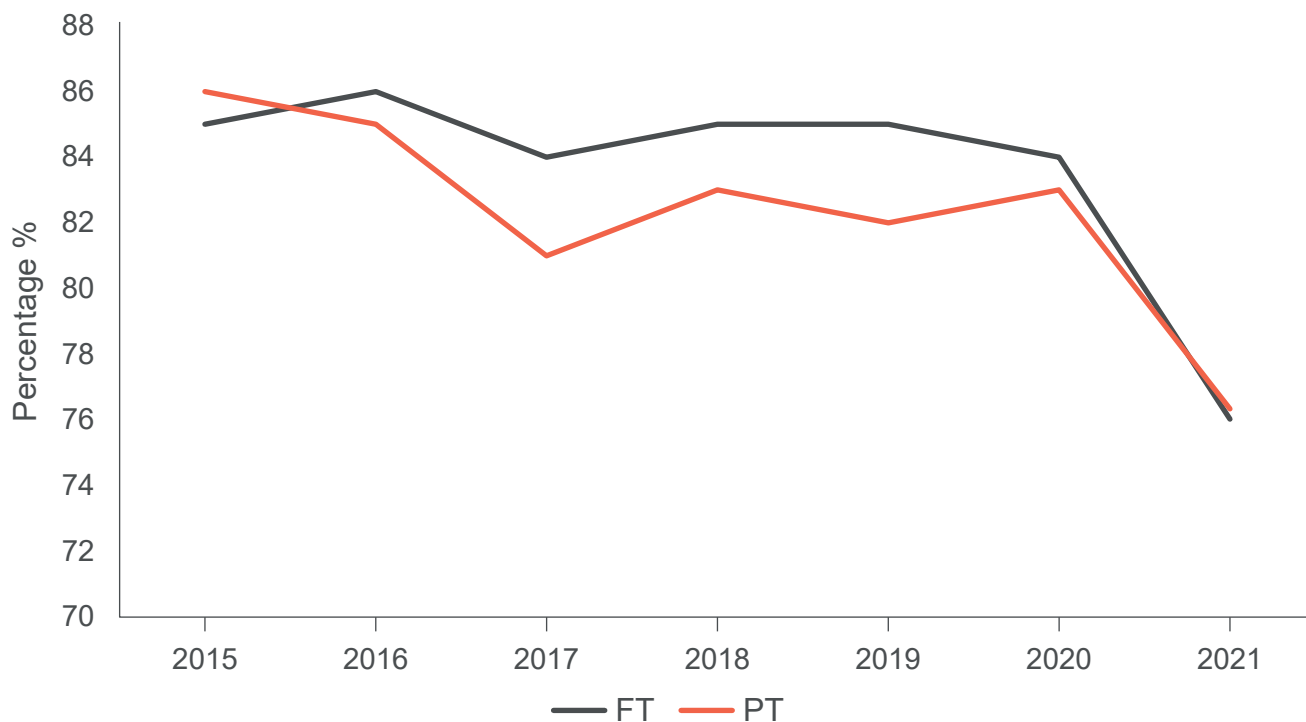
University student satisfaction rates were high and relatively stable until 2019 but dropped significantly during the pandemic

- 31 In HE, overall student satisfaction has fluctuated around 85% over the past decade, with satisfaction among full-time students being slightly ahead of part-time students. In 2020/21, student satisfaction was affected by the pandemic, with satisfaction falling to 76% for both full-time and part-time students (**Exhibit 10**). Satisfaction among HE students in England dropped similarly as a result of the pandemic.

28 Statistics from the Lifelong Learning Wales Record published by the Welsh Government, which includes data from all post-compulsory settings except schools.

29 Statistics for 2019 are from Welsh Government, Consistent Performance Measures for Post-16 Learning: Achievement, August 2018 to July 2019, February 2020. Data for 2020 is from Welsh Government, Outcomes for Learners in Post-16 Education Affected by the Coronavirus (COVID-19) Pandemic: August 2019 to July 2020, April 2021.

Exhibit 10: student satisfaction in quality of course in Welsh universities, 2015/16 to 2020/21



Source: UK Office for Students, National Student Survey

32 The Welsh Government has not collected survey data regularly from FE students since 2015. However, in December 2020 they did survey learners on the impact of the pandemic on their studies where 69% of respondents agreed that they were satisfied with their online provision³⁰. The survey asked learners to reflect on their experiences during the first national lockdown in March 2020 and a lower proportion (64%) said they were satisfied with their online provision at that time.

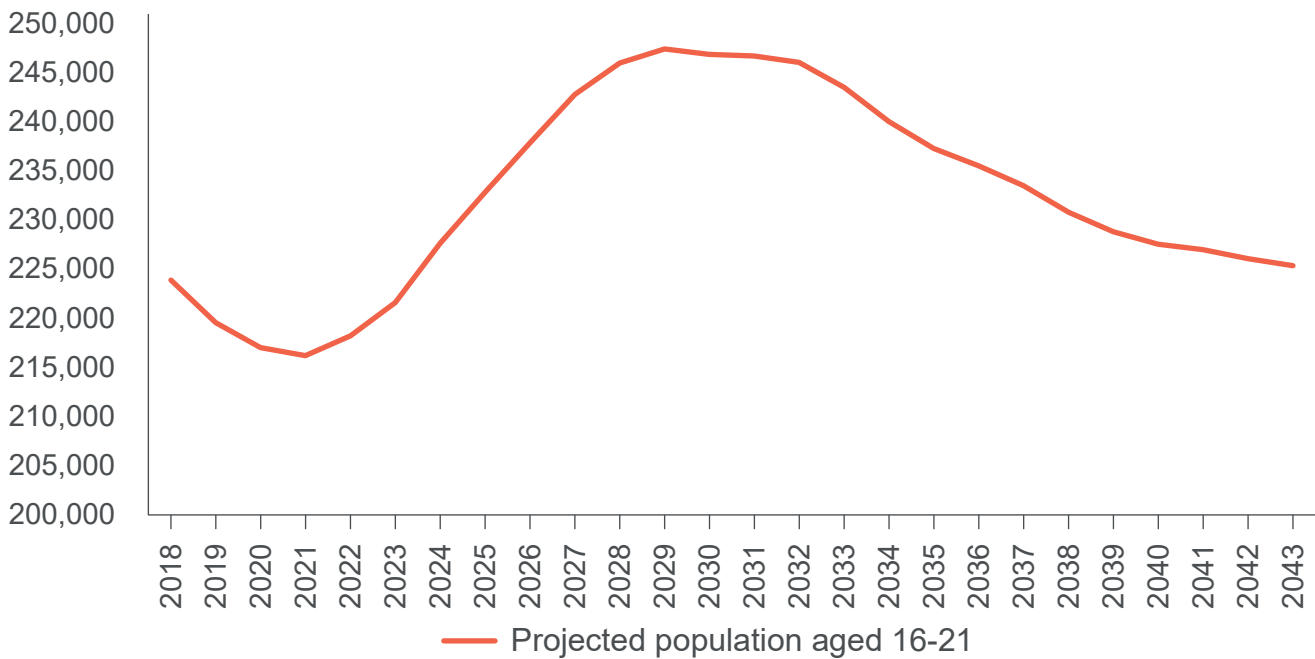
30 Welsh Government, Survey of effect of Covid-19 on learners, March 2021

Higher and further education – demand and capacity

Higher and further education demand will rise and then fall due to demographic changes

33 Places in HE and FE are not limited in Wales and depend on the demand placed on institutions through application. StatsWales projections suggest that the population aged 16 to 21 will grow from 2021 and reach a peak in 2029, after which there is a drop off (**Exhibit 11**). The key challenge will be to create sufficient capacity to support up to 31,000 new learners while then being able to manage a swift reduction in demand.

Exhibit 11: projected population of Wales aged 16 to 21 between 2018 and 2045



Note: These demographic projections were produced in 2018. Since then, there has been a sharp reduction in the birth rate which means that the drop off in 16 to 21-year-olds after 2029 is likely to be sharper than shown here.

Source: Audit Wales analysis of StatsWales data

- 34 HE staff numbers have increased by over 3,000 (16%) between 2010/11 and 2019/20³¹. This growth in staffing is some way below the 31% growth in student numbers in HE. Staff numbers in FE colleges declined by 17% between 2012/13 and 2015/16 due to financial constraints but have since increased and were 8% higher in 2019/20 than in 2010/11³². The Welsh Government believes the transition to blended learning, mixing online and face-to-face, as well as more diverse study times, will enable greater capacity to be unlocked from the current estates and staffing levels. Nevertheless, it remains to be seen whether current staffing levels will remain sufficient to meet the likely rise in demand.

Higher and further education – key issues

Colleges and universities face financial pressures as a result of COVID-19 and pensions

- 35 Analysis at the start of the COVID-19 pandemic predicted a significant detrimental impact on both HE and FE. The Wales Fiscal Analysis estimated losses could be between £100-140 million for universities, with 'significant operational challenges in the medium term' for five of the eight Welsh institutions³³. Much of the loss is due to a reduction in the number of international students and many universities will need to restore numbers to pre-pandemic levels in order to return to financial sustainability. Research for the University and College Union³⁴ concluded that £98 million would be lost by Welsh universities in tuition fees alone due to the pandemic, leading to four of the eight universities to have to draw on reserves. As students typically study for three years, a fall in tuition fee income, both domestic and international, would be felt over a medium-term period.
- 36 The Welsh Government has provided additional funding to both sectors to offset some of the additional costs created by COVID-19 (**paragraph 11**), but there are likely to be continuing costs as they emerge from the pandemic. Any ongoing COVID-19-related restrictions could increase costs or reduce productivity. There will be a need to fund catch-up provision for students who have fallen behind, especially for vocational learners. At present, the amount and nature of any additional funding is uncertain.

31 StatsWales, Staff at Welsh HEIs by gender, institution, year, mode of employment, contract type and employment type, January 2021

32 StatsWales, Full-time equivalent staff numbers at Further Education Institutions by institution, July 2021

33 Wales Fiscal Analysis, Covid-19 and the Higher Education Sector in Wales, May 2020

34 University and College Union, Impact of Covid-19 on university finances in Wales, May 2020

- 37 Both sectors need to address significant pension liabilities arising from defined benefit pension schemes. The University Superannuation Scheme is under particular pressure, with an overall deficit of £15-18 billion across the UK. Benefits have been reduced and staff contributions have increased substantially, leading to industrial disputes with repeated strikes. However, overall contributions (staff and employers) may need to rise from 31% of salary to between 42% and 56% to close the deficit³⁵. FE colleges in Wales also face a worsening deficit for the sector's two main pension schemes; their 2019/20 accounts included deficits totalling £436 million.
- 38 Despite these pressures, HEFCW has concluded that there is no imminent risk of an institution failing, and the Welsh Government has concluded similarly for FE colleges. There are potential financial upsides over the coming decade from a rise in the population of 18 to 21-year olds (the core demographic group for universities) although that is likely to be followed by a decline in learners in that age group.
- 39 The extent to which Welsh universities can benefit from these potential upsides depends to an extent on policy choices in relation to student numbers. In particular, the UK Government's response to the Augar Review of post-18 education and funding in England³⁶ will have important implications for funding and student numbers in Wales. The review recommended a shift in emphasis towards higher-level vocational and technical education, with fewer 'low value' degrees in universities and a reduction in tuition fees from £9,000 to £7,500 per year. If fully implemented, the review would result in some additional funding for Wales through the Barnett formula.
- 40 The number of applications in 2021 suggests that the immediate outlook for tuition fee income is positive for both UK and international students. There are potential opportunities for both sectors from the planned increase in apprenticeship provision (including more degree apprenticeships) and the Welsh Government's focus on lifelong learning. There are also opportunities to deliver more learning digitally following the pandemic.

35 University Superannuation Scheme, 'Pension contributions will need to rise sharply if existing benefits are to be maintained', news release, March 2021

36 Independent Panel report to the Review of Post-18 Education and Funding, May 2019

- 41 The challenge for the Welsh Government will be to help the HE and FE sectors capitalise on these opportunities while supporting institutions to manage the known financial pressures and risks. Colleges Wales has called for greater certainty in future funding and for funding to continue to be flexible enough to ensure bespoke, local planning over the medium term. The Auditor General reported on FE finances and performance in 2017 and recommended that the Welsh Government return to three-year budgeting for the FE sector. However, financial constraints and uncertainties have led the Welsh Government to maintain annual budgeting.

HE and FE face challenges in managing some of the ongoing consequences of Brexit

Student numbers

- 42 Brexit has resulted in a reduction in the number of students from EU member states now that they face higher fees. Tuition fees from EU students represented around 5% of the HE sector's income in Wales in 2018/19 and losses will need to be replaced to sustain universities' finances. Early indications are positive: for 2021-22 the decline in applications from EU residents has been offset by increases in applications from elsewhere.

Replacing EU funding

- 43 Before Brexit, Wales benefited extensively from EU funding, including for research and innovation through the European Structural and Investment Funds (ESI). Much of this research and innovation funding was spent on programmes delivered by the HE sector³⁷. The UK Government is replacing the ESI with a Shared Prosperity Fund that it will administer directly and is available throughout the UK. The scale and nature of this funding for Wales are unclear at present.

37 In total, projects led by the FE and HE sectors had around £388 million of EU funding approved in the 2014-2020 round of funding, including £252 million of funding for research and innovation. Source: Welsh Government EU Structural Funds Programme 2014-2020: Approved Projects, Updated February 2021

- 44 In this context, it will be crucial for universities to capitalise on alternative sources of funding for research. The Reid Review³⁸ made three recommendations to this end, including the establishment of a 'Future of Wales' fund to incentivise researchers to obtain funding from outside Wales. Universities Wales has called for the implementation of these recommendations, but the Welsh Government has committed only to one of them due to the significant costs that would need to be met from future budgets.
- 45 The Welsh Government faces an additional challenge to replace ESI funding for apprenticeships and other work-based learning, much of it delivered by FE colleges and an important part of their income.

Sustaining collaboration and exchanges

- 46 Universities are working to maintain academic and research relationships developed through EU-funded programmes. The UK has maintained access to the Horizon 2020 research programme, but it no longer participates in the Erasmus+ learning exchange programme. Between 2014 and 2020, 683 Welsh students applied to the scheme to study in another university in Europe³⁹ and the scheme funded inward exchanges too.
- 47 The UK Government has set up the Turing Scheme as a replacement to support overseas placements for UK students. The scheme is open to institutions across the world and therefore has a more global focus than Erasmus+, but it does not fund tuition fees or fund inward exchanges and there are additional visa requirements for reciprocal exchanges that may also complicate the process of renewing or arranging new exchange programmes between institutions.
- 48 The Welsh Government has sought to overcome some of these potential hurdles by establishing a Wales-only 'International Learning Exchange' scheme to complement the Turing Scheme. Funding is available for students to come to Wales to study, as well as Welsh students travelling abroad. The Welsh scheme also has the broader focus of Erasmus for vocational work, adult education and youth work.

38 Welsh Government, Review of Government Funded Research and Innovation in Wales, December 2017

39 Erasmus Plus UK, 2014-2020 Applications Received, February 2021

There are opportunities and challenges to manage around the reform of post-16 education

Retaining good practice from the pandemic response

- 49 The response to the pandemic has brought some beneficial changes that could form the basis of future working. Colleges Wales and Universities Wales told us that collaboration had strengthened with the Welsh Government and institutions working together to respond to the emergency with swift, flexible interventions. The development of digital learning techniques has accelerated, and many courses are likely to increase their digital content permanently, although most courses will include face-to-face teaching as part of a blended approach.

The Commission for Tertiary Education and Research

- 50 As Wales emerges from the pandemic, the Welsh Government will consider how it takes forward its reform plans for post-16 education. Front and centre is the Draft Tertiary Education and Research Bill, still to be considered by the Senedd, and the resultant creation of the Commission for Tertiary Education and Research (CTER). There are mixed views on the merits of the changes foreseen in the bill. In particular, there is some concern that the new outcome agreements and other accountability arrangements could operate in an unduly narrow and restrictive way that focuses too much on measurable outputs like student numbers and grades and not enough on broader outcomes for students and society. There is also concern about the impact of the proposals on universities' independence.
- 51 The leadership of the new commission will face many immediate and longer-term challenges. It will need to address the concerns of some stakeholders about the new arrangements, develop trust with institutions and other stakeholders, and enable collaboration while respecting institutional autonomy. The new commission will also need to develop a coherent and long-term strategy to deliver Welsh Government objectives. It will need to manage these challenges while setting up the new commission amid the inevitable disruption caused by organisational change.

Delivering the specific commitments in the new programme for government

- 52 The Programme for Government has specific targets to deliver 125,000 all-age apprenticeships over the current Senedd term (a 25% increase) and to offer all under-25s work, education, training, or self-employment under the Young Person's Guarantee. These will be challenging to deliver in a difficult economic context, especially if public spending is constrained. There was a significant reduction in the number of new apprenticeships in 2019/20 and the pandemic has severely affected delivery, with private sector employers less willing or able to take on apprentices in such a difficult operating environment.
- 53 The Welsh Government expects an increase in unemployment following the end of the UK Government's furlough scheme, which is likely to increase the demand for the Young Person's Guarantee. The scale of demand is uncertain at this stage but is potentially high, as there are already around 48,000 NEET 16 to 24 year-olds in Wales and the number could well rise as employment opportunities deteriorate. The Welsh Government estimates the cost at between £27 million and £82 million in the first year, depending on take-up, falling by about a third in subsequent years. It also expects to need different delivery approaches if take-up reaches 20%, as it expects to happen. These approaches are yet to be developed.

Reform of curriculum and qualifications

- 54 The introduction of the new Curriculum for Wales for pre-16 education will have implications for the post-16 sector⁴⁰. The Welsh Government's guidance encourages schools to work with FE institutions to collaborate to support learner transition, the sharing of best practice, and developing a shared understanding of curriculum design, assessment, and progression. As the new curriculum is rolled out in schools, this co-construction with neighbouring FE institutions will be a key element in ensuring the curriculum works for students as they leave compulsory education.

- 55 The Welsh Government will need to consider in due course whether any changes should be made to post-16 qualifications, curricula or assessment. The UK Government has introduced T-levels in England, as a formal mix of classroom and placement-based study alongside A-levels. These new qualifications will replace some existing vocational qualifications in England. There is a risk that this development may reduce the willingness of vocational qualification providers to continue offering qualifications that are still supported in Wales but no longer funded in England.
- 56 More generally, there is a need to ensure that qualifications in Wales meet the needs of employers while remaining sufficiently comparable to be recognised and valued across the UK and further afield. Qualifications Wales is responsible for regulating qualifications and has a strategy based on sector reviews (focused on growth sectors), supplemented with targeted monitoring of specific qualifications⁴¹.

There remain challenges to manage the direct impacts of COVID-19 on learners

- 57 The impact of the pandemic on individual learners will have varied but all have experienced substantial disruption. The effect seems to have been most negative for those in the vocational sector, especially at lower qualification levels, and for learners who are already vulnerable due to deprivation, circumstances at home or learning disabilities. Staff have also been under considerable strain and have had to adapt quickly to online teaching and support. The Welsh Government has provided some support for mental health and wellbeing services, and both Colleges Wales and Universities Wales believe there is an opportunity to build on mental health provision during the pandemic to create a more comprehensive, responsive service across all post-16 educational settings.
- 58 Students entering FE and HE are likely to have experienced significant disruption to their learning and may need additional support to study at the higher levels. There will also be a need for some existing students to catch up on lost learning and practical experience, and to deliver delayed vocational learning programmes in FE (**paragraph 30**). The Welsh Government has provided catch-up grants to FE colleges for support for learners. There is likely to be an ongoing need for support which is likely to require additional resources and capacity.

- 59 Part-time students have been particularly affected by the pandemic, especially those in adult community learning, where only around a quarter of courses have continued to run. This comes on top of a steep decline in part-time provision in FE colleges since 2010, making it more difficult for people aiming to up-skill independently of their employment. Decisions on the level of provision in future will need to take account of the Welsh Government's aspirations for lifelong learning and creating flexible learning pathways that enable individuals to acquire new skills in a way that suits their personal circumstances.



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