



## **Universities Wales response to the Committees of the National Assembly for Wales' call for information on Welsh Government's 2018-19 draft budget proposals.**

### **1. About Universities Wales**

- 1.1. Universities Wales represents the interests of universities in Wales and is a National Council of Universities UK. Universities Wales' Governing Council consists of the Vice Chancellors of all the universities in Wales and the Director of the Open University in Wales.

### **2. Impact of Welsh Universities**

- 2.1. Welsh universities continue to leverage a large economic impact for Wales, generating £4.6 billion of output in Wales in 2013/14, some £2.4bn of Welsh Gross Value Added (GVA) (equivalent to 4.6% of the Welsh total) and creating almost 50,000 jobs in Wales (3.4% of the Welsh total). In the same year, Welsh universities generated a total of £600 million of export earnings<sup>1</sup>.
- 2.2. All parts of Wales share in the impact of Welsh universities, with impact spreading across local authority boundaries and to areas which do not host a university. Around 25% of both the GVA and jobs generated by the universities in Wales, (£597 million and 11,783 jobs) were generated in local authority areas that did not have a university presence.
- 2.3. Universities play a broad role across society. For example, funding for quality research (QR) enables universities to explore foundational research areas. A programme of research by our universities reduced the number of people being taken to emergency departments by ambulance for example. In 2012-13 over 360,000 emergency calls were resolved through telephone advice, avoiding ambulance dispatch as a result of this research with estimated cost savings from avoided ambulance journeys alone of £24 million.
- 2.1. Welsh universities have the highest percentage of 'world leading' research in terms of impact of any part of the UK, covering a diverse range of areas such as bilingualism, policing, flooding, dementia, childcare, mental health, public housing, and community violence.
- 2.2. Universities in Wales have a multifaceted preventative role, including through research which saves public services such as local health boards money, support for individuals in entering or progressing through the workforce, and direct engagement with communities in areas including mental health, aging, and sport.

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<sup>1</sup> <http://www.uniswales.ac.uk/wp/media/The-Economic-Impact-of-Higher-Education-in-Wales.pdf>

### 3. Summary

- 3.1. Universities in Wales are internationally competitive and a major economic asset, bringing widespread benefits to individuals, communities, the nation as a whole and government in Wales.
- 3.2. The reduction to university funding for 2017-18 has presented significant challenges for universities in Wales. It is the seventh consecutive year of reductions to the Welsh Government's funding of universities.
- 3.3. Our response to the Finance Committee's consultation on the budget for 2017-18 should be noted. There remains no further space for work-arounds in the sector.
- 3.4. The 2018-19 budget will begin to implement recommendations of the Welsh Government's 'Independent review of higher education funding and student finance arrangements' (Diamond Review). Implementation in 2018-19 will begin to create a positive long-term sustainable future for the Welsh higher education sector.
- 3.5. The UK's withdrawal from the European Union poses a number of challenges for universities in Wales including, amongst many, the uncertainty over residency rights for EU nationals, the continued participation in the Horizon 2020 research programme and the replacement of European Structural Funds at a devolved level.
- 3.6. Further reductions to the Welsh Government higher education budget would further impact vulnerable areas including part-time provision, high-cost subjects and quality research.

### 4. What, in your opinion, has been the impact of the Welsh Government's 2017-18 budget?

- 4.1. The reduction in university funding for 2017/18 presents significant challenges for universities in Wales. The Welsh Government's higher education budget has now had seven successive years of cuts, as of the First Supplementary Budget for 2017-18 the budget for higher education was £104.4m, down from £117.8m the previous year, a reduction of 11%<sup>2</sup>.
- 4.2. When looking at departmental expenditure limits for both resource and capital funding, this represents a reduction of £347.8m, or 77%, since 2010/11. This reduction is partly the result of the shift from grant funding to full-time undergraduate fee income. This shift means that cuts to the higher education budget have different effects across universities. For example, universities with part-time provision, research, expensive subjects such as medicine, dentistry and conservatoire are particularly vulnerable. These concerns were raised by the Children Young people and Education Committee in response to the Draft Budget 2016-17<sup>3</sup>.
- 4.3. Universities in Wales have also had to manage a succession of major changes and financial

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<sup>2</sup> <http://gov.wales/docs/caecd/publications/170627-tables-en.pdf>

<sup>3</sup>

<http://www.senedd.assembly.wales/documents/s500002798/Letter%20from%20Chair%20of%20Children%20Young%20People%20and%20Education%20Committee%20to%20Minister%20for%20Education%20and%20Sk.html?CT=2>

constraints and have engaged in a policy of substantial reconfiguration.

- 4.4. As a result of the Welsh Government's budget for the **financial year 2017-18**, HEFCW's funding allocation for the **academic year 2017-18** is £99.3m, a reduction from £127.6m for the academic year 2016/17. As this reduction partly reflects the Welsh Government directly funding the Coleg Cymraeg Cenedlaethol in 2017-18 instead of via HEFCW (which was £5.4m), this is an overall reduction to HEFCW of £22.9m. In total this is a 22% reduction in funding from HEFCW for universities in Wales in the academic year 2017-18 compared to the academic year 2016-17. This funding adjustment has not been allocated against individual funding lines<sup>4</sup>.
- 4.5. Wales lags significantly behind the rest of the UK in research and development investment. Wales' total research and innovation expenditure in 2015/16 was only 2.1% of all UK expenditure in these areas. Wales' long-term prosperity in the global economy will depend on its ability to foster research and innovation which is transformational and delivers long-term social and economic benefits.
- 4.6. A key driver of innovation activity in England is the Higher Education Innovation Fund (HEIF) and, similarly, in Scotland the University Innovation Fund. Two recent independent studies of the impact of the HEIF found that innovation funding has significant benefits for economic and regional development that are both monetary and non-monetary, including significant benefits for social and community groups and SMEs. These studies found that the HEIF presents a return of investment of £7.30 per £1 as well as an additional £2.40 of non-monetised benefits<sup>5</sup>.
- 4.7. There is currently no equivalent innovation funding in Wales. In UK-wide funding opportunities such as the Industrial Strategy Challenge Fund, universities will often have to provide an element of match funding. Therefore, the lack of innovation funding in Wales can impact the ability of universities in Wales to access and drawdown additional UK-wide funds. Introducing funding for knowledge exchange is a key recommendation from the Diamond Review.
- 4.8. It should be noted that all Welsh universities have become signatories of the Welsh Government's Code of Practice for Ethical Employment in Supply Chains and committed to paying the Living Wage Foundation's living wage to all directly employed HE staff by 2018/19 and to start the process of implementing the living wage across their outsourced HE activity from 2018/19<sup>6</sup>.
- 4.9. A key concern is whether universities are able to remain competitive at the current funding levels. This could be a major issue for Wales, since the future economy is dependent on the strengths of its universities and their ability to compete successfully in the global knowledge economy.

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[https://www.hefcw.ac.uk/documents/news/press\\_releases/2017%20Press%20Releases/09%2006%2017%20HEFCW%20Funding%20Allocations%202017%2018%20%20English.pdf](https://www.hefcw.ac.uk/documents/news/press_releases/2017%20Press%20Releases/09%2006%2017%20HEFCW%20Funding%20Allocations%202017%2018%20%20English.pdf)

<sup>5</sup> <http://www.hefce.ac.uk/pubs/rereports/year/2015/heifeval/>

<sup>6</sup> <http://www.uniswales.ac.uk/universities-wales-statement-on-the-living-wage-commitment/>

**5. What expectations do you have of the 2018-19 draft budget proposals? How financially prepared is your organisation for the 2017-18 financial year, and how robust is your ability to plan for future years?**

Expectations of the 2018-19 draft budget proposals

- 5.1. Universities in Wales have had to make difficult decisions in light of the 2017-18 budget. In the 2018-19 budget, Universities Wales expects to see increased investment in higher level skills and a recognition of the economic impact of universities in Wales, in line with Diamond Review recommendations.
- 5.2. We expect the Welsh Government to begin action of recommendations from the Diamond Review, which received cross-party support, in their 2018-19 budget proposals. Implementation will create a positive long-term sustainable future for the sector.
- 5.3. Universities Wales also welcomes the proposed package of maintenance support, announced by the Cabinet Secretary for Education in July 2017, that means students from Wales will receive the equivalent of the living wage. Decisions that have been taken as part of the overall proposed package will ensure future sustainability and are necessary. For the first time, Wales is now an exemplar of higher education and student funding arrangements.

Financial preparedness and ability to plan

- 5.4. The current budget levels and funding arrangements for universities pose significant challenges both in the short and long term. However, as is well attested, including in the report of the Wales Audit Office,<sup>7</sup> universities are highly capable in managing their financial affairs, but there are major issues relating to the future sustainability and competitiveness of universities.
- 5.5. University sustainability is also increasingly dependent on its students. Investment in buildings with up-to-date facilities, modern accommodation and the infrastructure to support world-leading research is more important than ever before, in order to attract students in an increasingly competitive marketplace. Given recent and forecast increases in borrowing by Welsh universities to support significant estate development plans, capital funding is now quite urgent.
- 5.6. It is noted that there is significant capital funding for this in England. A strong case can be made for additional capital funding in Wales to address the historic gaps and comparative under-investment. This is discussed in more detail in Appendix B.
- 5.7. Another significant challenge to universities' ability to plan is the UK's withdrawal from the European Union. The following have financial implications for universities in Wales:
- 5.7.1. Residency rights for EU nationals working in the university sector and their dependants
- 5.7.2. The UK's continued participation in the Horizon 2020 research and innovation programme to the end of the programme period

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<sup>7</sup> Wales Audit Office, Higher Education Finance, 21 November 2013 (as published in January 2014).

5.7.3. The replacement of European Structural Funds at a devolved level

5.7.4. Mobility opportunities for UK staff and students.

5.8. Much of the existing innovation activity in Wales is funded through European Structural Funds, which have awarded around £240m to Welsh universities for 2014-2020. The loss of these funds and the potential loss of access to EU competitive funding including Horizon 2020 could have a major impact on the work of universities including an impact on Wales' economic performance more widely.

5.9. The UK Government announced an increase in Government R&D investment of 20% a year by 2020-21, a total increase of £4.7 billion new money<sup>8</sup>. There remains uncertainty over what parts of this increased investment will be available to Wales and how much of the investment will result in consequential for the Welsh Government.

5.10. These uncertainties exacerbate existing planning difficulties. For example, many universities in Wales belong to cross-border consortia and seek to win funding competitions that require matched funding from HEFCW or Welsh Government. A recent example of this is a Bath-led consortium which includes Swansea University and Cardiff Metropolitan University applying for funding to establish the Institute for Coding<sup>9</sup>.

5.11. When additional funding is allocated via HEFCE, for example the additional £40million for the Higher Education Innovation Fund allocated in July 2017<sup>10</sup>, the Welsh Government receives consequential funding.

5.12. Uncertainty over whether funding such as this will be made available to universities in Wales can present barriers to universities forming collaborations and participating in UK-wide innovation activity which will benefit Wales.

5.13. Further reductions in the Welsh Government's higher education budget would disproportionately impact the areas that are vital to Wales, but that universities would not be able to provide without public subsidy. These include:

5.13.1. **Part-time provision** – a reduction in the higher education budget presents a serious risk of closing off the opportunities that part-time study provides for a wide variety of students, including those who want to upskill or retrain. Part-time provision makes a significant contribution to the widening access agenda, community development, and economic regeneration in disadvantaged communities. Without public support, it is inevitable that part-time fees will have to rise. We have seen in England that the part-time market will not sustain fees at the £9k level and this has caused a devastating decline in demand.

5.13.2. **High-cost subjects** – the cost of teaching exceeds £9k in about half of subject areas, with science, technology, and engineering subjects predominantly (but not exclusively) accounting for higher cost subjects. Without public investment, there is a significant risk that provision in high cost subjects will move into decline. This creates a significant risk

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<sup>8</sup> <https://www.gov.uk/government/news/autumn-statement-boosting-uk-research-innovation>

<sup>9</sup> <http://www.hefce.ac.uk/pubs/year/2017/CL,082017/>

<sup>10</sup> <http://www.hefce.ac.uk/news/newsarchive/2017/Name,114709,en.html>

of Wales' higher education system not being able to cater to the diverse needs of the future workforce and economy.

5.13.3. **Quality research funding** – reducing QR funding would have a profound impact as it would remove the foundations from a system that is proven to have a direct transformational effect on society and the economy.

## 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 the areas identified below?

### 6.1. Approach to preventative spending and how is this represented in resource allocation

6.1.1. Welsh universities leverage a large economic impact for Wales, generating £4.6 billion of output in Wales in 2013/14, some £2.4bn of Welsh Gross Value Added (GVA) (equivalent to 4.6% of the Welsh total) and creating almost 50,000 jobs in Wales (3.4% of the Welsh total). Funding for universities plays a preventative role in multiple areas.

6.1.2. For example, funding for quality research (QR) enables universities to explore foundational research areas. A programme of research by our universities reduced the number of people being taken to emergency departments by ambulance for example. In 2012-13 over 360,000 emergency calls were resolved through telephone advice, avoiding ambulance dispatch as a result of this research with estimated cost savings from avoided ambulance journeys alone of £24 million.

6.1.3. Universities in Wales have the highest percentage of 'world leading' research in terms of impact such as this of any part of the UK, and it is the type of research that would be at risk should higher education budgets face further pressure. QR funding has a multiplier effect, successive projects build on the foundations of QR funding, attracting the brightest research and winning competitive research funding awards.

6.1.4. On a more fundamental level, insufficient funding of higher education in the present stores up longer-term problems that will take years to remedy, such as research infrastructure, facilities or skills deficits in the economy. For example, if universities are not adequately funded to train doctors, this could lead to a shortfall that would take at least 5 years to turn around.

6.1.5. Funding for universities is also preventative in the way that it can minimise risks to the Welsh workforce and economy that global technological developments could bring.

6.1.6. Recent analysis by PricewaterhouseCoopers found that up to 30% of UK jobs could potentially be at high risk of automation by the early 2030s<sup>11</sup>. The same analysis found that, based on the risk of job automation and the proportion of the workforce, the most vulnerable areas are retail trade, manufacturing, and administrative support services.

6.1.7. These sectors are important parts of the Welsh economy, accounting for over half a million jobs in Wales. The proportion of employees in these areas in Wales tends to be higher than the UK as a whole.

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<sup>11</sup> <http://www.pwc.co.uk/economic-services/ukey/pwcukey-section-4-automation-march-2017-v2.pdf>



- 6.1.8. PricewaterhouseCoopers report found that for those educated to GCSE-level or below, the estimated potential risks of automation are as high as 46%. This falls to only around 12% for those with undergraduate degrees or higher. These findings come against a backdrop of already increasing demand for higher level skills with the CBI's Education and Skills Survey 2016 finding that more than three quarters of businesses in the UK expected to have more job openings for people with higher level skills over the coming year<sup>12</sup>.
- 6.1.9. Investment in the delivery of higher level skills, and new models of higher level skills delivery, can ensure the Welsh economy and workforce is prepared for and responsive to the challenges of automation. Given the progress in delivering new models of higher level skills delivery elsewhere in the UK, such as the development of graduate level apprenticeships in Scotland and degree apprenticeships in England, inadequate investment in this form of provision in Wales could have a negative impact on skills development in Wales and, accordingly, the economy more widely.
- 6.1.10. Work by universities also has a wide-ranging preventative impact on their communities in other ways. For example:
- 6.1.10.1. the Centre for Health and Aging at University of Wales Trinity Saint David which works to improve the health and fitness of the over 50s
  - 6.1.10.2. Aberystwyth University's work with the local health board to deliver cardiac rehabilitation classes and Parkinson's Group classes.
  - 6.1.10.3. Cardiff Metropolitan University's delivery of sports programmes in Cardiff, including organising one of the largest centrally organised schools' competitions in Britain.
  - 6.1.10.4. University of South Wales supporting members of the public to have access to therapeutic services including CBT, children's therapies, music therapy and online counselling.

## 6.2. *Welsh Government policies to reduce poverty and mitigate welfare reform*

- 6.2.1. Higher education remains a major catalyst for social mobility. Investment in universities has significant consequences for students and access to higher education. As outlined above, further reductions - particularly for part-time provision – are likely to have a detrimental impact on disadvantaged groups.
- 6.2.2. We expect the Welsh Government to implement proposals from the Diamond Review in the 2018-19 budget. These proposals, from the progressive package of maintenance support to the support for part-time and expensive subjects, will support social mobility and contribute to the reduction of poverty in Wales. The role of universities in reducing poverty in Wales is multifaceted, including widening access to higher education, the positive economic impact they have on their communities, and the impact of the diverse profile of research in Wales on topics such as public housing, health, policing and

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<sup>12</sup> [www.cbi.org.uk/cbi-prod/assets/File/pdf/cbi-education-and-skills-survey2016.pdf](http://www.cbi.org.uk/cbi-prod/assets/File/pdf/cbi-education-and-skills-survey2016.pdf)

community cohesion.

### *6.3. The Welsh Government's planning and preparedness for Brexit*

6.3.1. Universities in Wales benefit significantly from membership of the EU. The UK's withdrawal presents a number of challenges for universities in Wales, including the loss of European Structural Funds which play a crucial role in funding innovation activity in Wales and the impact this activity has on Wales' productivity. Universities are the third largest recipient of structural funds in the last round and are particularly exposed to the withdrawal of this funding. It is the main source of capital and innovation funding for universities in Wales at present.

6.3.2. As well as the challenges posed by the loss of structural funds and question marks over continued participation in Horizon 2020 and its successor scheme, withdrawal from the EU could also impact student recruitment.

6.3.3. It is important that Welsh Government Barnett allocations are increased to a level that at least meets any shortfall of funding from loss of access to EU programmes.

### *6.4. How evidence is driving Welsh Government priority setting and budget allocations*

6.4.1. Universities Wales welcomed the publication of the Diamond Review and its commitment to finding a sustainable solution to higher education funding and student finance arrangements. The review reflected a body of evidence on both supporting students and the key priorities for funding universities.

6.4.2. We also welcomed the Welsh Government's response to the recommendations which [accepted key recommendations from the review](#) including the funding of QR, part-time, knowledge exchange and expensive subjects.

6.4.3. As announced, this will now be taken forward in the 2018-19 budget round.

### *6.5. How the Future Generations Act is influencing policy making*

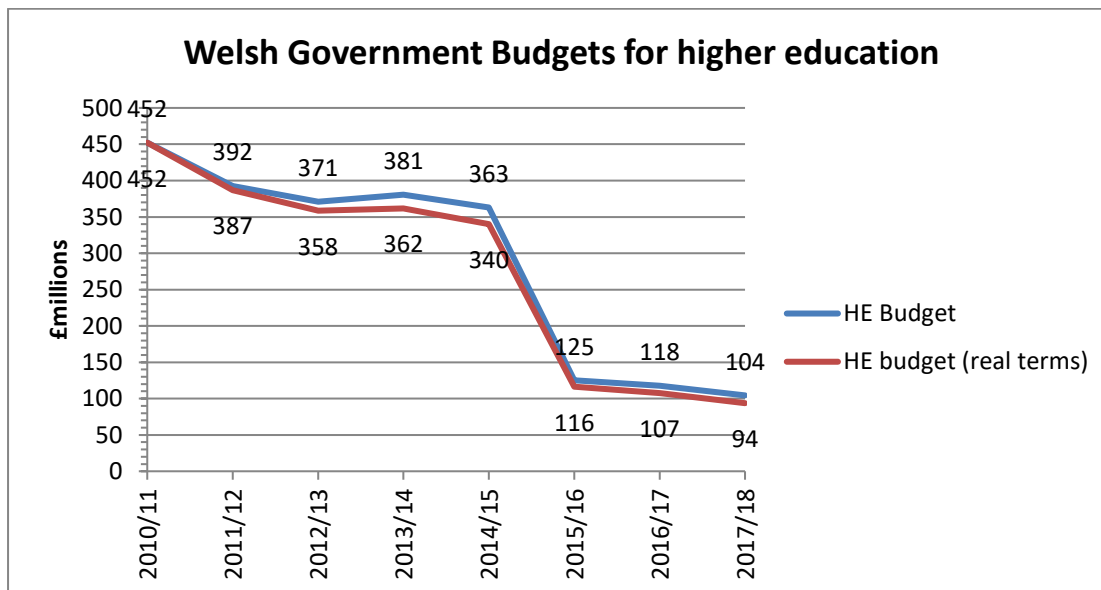
6.5.1. Research and innovation activity by universities in Wales makes an extensive and wide-ranging contribution to each of the seven well-being goals of the Well-being of Future Generations Act. For example, from improving the detection of abnormal blood clotting to safely disposing of high levels of nuclear waste; from exploring how sport can improve mutual respect and understanding to using computers to reduce preventable deaths in the health service.



## Appendix A – HE Budget and HEFCW funding allocations 2016/17

### What was the budget for HE for 2016/17?

1.1. The current budget position compared to previous years in both nominal and real terms is summarised in Figure 1:



Source: Universities Wales (from Welsh Government 2nd Supplementary Budgets for 2010/11 to 2016/17 and 1st Supplementary Budget for 2017/18). Real terms stated at 2010/11 market prices (using HM Treasury GDP deflators, June 2017).

1.2. For comparison, the following table summarises the change in the HE budget compared to the Welsh Government’s total budget (excluding annually monitored expenditure i.e. expenditure it is not free to allocate). The HE budget has been cut by 77% since 2010/11 whereas the remaining Education and Skills Budget has fallen by 9% and the Welsh Government’s total budget has fallen by 3%:

#### Welsh Government Budgets

Resource and Capital DEL (£m) Financial Year	Education and Skills MEG			All MEGS
	HE	Other	Total	Total
2010/11	452	1,618	2,071	15,583
2011/12	392	1,471	1,863	15,037
2012/13	371	1,554	1,925	14,986
2013/14	381	1,790	2,170	15,766
2014/15	363	1,408	1,771	15,672
2015/16	125	1,673	1,798	15,843
2016/17	118	1,761	1,879	14,790
2017/18	104	1,475	1,579	15,101
% change since 2010/11	-77%	-9%	-24%	-3%

Source: WG 2nd Supplementary Budgets, except for 2017-18 (1st Supplementary Budget)

What was the impact on funding for universities?

- 1.3. HEFCW funding is based on academic years, so the amount that it has available to allocate will depend on the budgets for the overlapping financial years as well as any previous balance that it may have carried forward.
- 1.4. The following summarises HEFCW's allocations for 2017/18, as indicated in HEFCW Circular W17/11HE:

Funding Category	Funding Available for Allocation (£M)	
	Academic Year	
	2016/17	2017/18
Research <sup>1</sup>	79.2	80.6
Full-time teaching <sup>2</sup>	15.1	15.0
Part-time teaching <sup>3</sup>	26.4	27.0
Strategic Funding <sup>4</sup>	31.4	5.2
<b>Baseline allocation prior to funding adjustment</b>	<b>152.1</b>	<b>127.8</b>
Funding Adjustment	-24.5	-28.5
<b>Funding allocation after adjustment</b>	<b>127.6</b>	<b>99.3</b>

- 1.5. Jobs generated by the expenditure of Universities, their students and visitors across Wales, by relative employment impact in each area:

Numbered by relative importance to employment in that area	Area of Wales	FTE Jobs generated by University activity	% of employment in the area <sup>13</sup>
1	Ceredigion	3027	8.4
2	Cardiff	15047	6.6
3	Swansea	6482	5.6
4	Gwynedd	2851	4.7
5	Rhondda Cynon Taf	3227	4.3
6	Newport	2433	3.4
7	Wrexham	1704	2.6

<sup>13</sup> Derived from 2013 Data on Workforce employment by Local Authority (StatsWales)

8	Merthyr Tydfil	534	2.3
9	Caerphilly	1349	2.3
10	Vale of Glamorgan	813	2.1
11	Carmarthenshire	1512	2.0
12	Neath Port Talbot	941	2.0
13	Torfaen	703	1.9
14	Bridgend	1248	1.9
15	Monmouthshire	839	1.9
16	Blaenau Gwent	339	1.7
17	Anglesey	396	1.6
18	Conwy	679	1.6
19	Flintshire	693	1.2
20	Denbighshire	488	1.1
21	Powys	707	1.1
22	Pembrokeshire	542	1.0
	<b>ALL WALES</b>	<b>46552</b>	<b>3.4</b>

1.6. Further information on the budget and on HE funding in general is available in Universities Wales's guide.<sup>14</sup>

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<sup>14</sup> Universities Wales, New guide to university funding and student finance in Wales, 21 September 2016 (see the Universities Wales website: [here](#)).

## Appendix B - Capital Funding

### Why does this matter to Wales?

1.1. Wales' universities make a significant contribution to Wales through:

1. Generating billions for the economy
2. Providing a world-class experience for students and meeting skills needs
3. Producing impactful research
4. Regenerating communities

### Why do universities need capital funding to deliver?

1.2. To do this they need to invest capital in order to continue to:

- a) **Attract students and staff** as their spending generates an economic impact for Wales of £4.6bn<sup>15</sup>. A recent Frontier Economics report<sup>16</sup> shows the value of capital expenditure in attracting additional student numbers: The quality of a Higher Education Institution's teaching and research facilities is an extremely important component of its offer. It is also seen as being a driving factor for developing collaborations between HEIs and the private sector, which can lead to important innovations and generates further income: Income to Wales through knowledge exchange between universities and other organisations, including the private sector, rose to £201 million in 2013/14<sup>17</sup>.
- b) **Offer a competitive student experience.** The introduction of tuition fees has changed the nature of the relationship between student and provider completely, with student expectations of their experience increasing significantly. Wales performs well overall in student satisfaction; however universities still report that a key objective in the development of capital programmes is because they need to improve the student experience by improving the environment.
- c) **Create the right conditions for world-class research.** Welsh universities have the highest percentage of 'world leading' research in terms of its impact of any part of the UK, with almost half of it considered to be having a transformational effect on society and the economy<sup>18</sup>. This is through investment in the latest research facilities, which in turn attract the brightest and best researchers from across the world.
- d) **Perform a central role in projects that bring benefits to local communities.** All Welsh universities have buildings and facilities that are crucial to their local communities, such as arts, innovation and sports centres. Furthermore, many historic

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<sup>15</sup> [The Economic Impact of Higher Education in Wales](#)

<sup>16</sup> 'A review of HEFCE Capital expenditure – a report by Frontier Economics' HEFCE 2015

<sup>17</sup> [Higher Education - Business and community Interaction \(HE-BCI\) Survey](#)

<sup>18</sup> 2014 Research Excellence Framework (REF)

university buildings, that are often central to the cultural identity of many Welsh cities and towns and key to attracting people internationally, are very expensive to maintain.

### **How do universities currently fund capital investment?**

- 1.3. Universities have to invest in order to attract students and staff. Until recently Welsh universities have had lower borrowing levels than the UK sector average. However, recent and forecast increases in borrowing to support significant estate development plans are likely to see the Welsh sector borrowings at least match the UK average, if not exceed it. Capital projects are noticeably more ambitious. Backlog maintenance may not be the biggest issue for all universities but for some in the sector, it remains a concern.
- 1.4. The vast majority of this expenditure has been covered by taking on more debt. Debt has never been so readily available at affordable costs, and interest rates remain low. Furthermore, universities are increasingly looking to more innovative means of raising money, such as bond issues, again which is generating relatively cheap money for universities to invest in their estate.
- 1.5. However, continuing at current rate of borrowing is not sustainable across all universities. A universities' ability to finance capital expenditure depends on their ability to generate a surplus – both for direct financing but also to enable borrowing. The Frontier Economics study suggests that a surplus of 7% per annum is required in order to sustain this.
- 1.6. Universities have been driving substantial operational efficiencies. This has been particularly driven in the Estates sector where we've seen property costs remain stable for the last five years despite substantial upward cost pressures.

### **What is the evidence?**

- 1.7. HEFCE has produced (with Frontier Economics) a study reviewing capital expenditure. They found that capital is associated with significant positive changes in a number of outcomes at Higher Education institutions, including student numbers, numbers of researchers and contract and consultancy research income. There is clear evidence of the ongoing need, on the part of Government and the sector itself, for further capital investment in the sector, to continue to attract the best students, lecturers and researchers in the world.
- 1.8. UK universities lag behind some of their international competitors in terms of the amount they invest in capital. The funding gap between Wales and England was estimated to lie between £73m and £115m (before the reductions in the November Comprehensive Spending Review and Draft WG Budget for 2016/17). Whilst the funding environment continues to remain uncertain for the sector it is vital that investment levels are maintained to ensure that buildings and equipment remain fit for purpose and continue to meet the needs of students and staff.