

## **Universities Wales response to the Committees of the National Assembly for Wales' call for information on Welsh Government's draft budget proposals for 2019/20.**

### **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. **Over three quarters of the UK graduate workforce in Wales come from Welsh universities.** In 2016/17, 14,650 recent graduates from universities in Wales were employed in the UK, including 9,450 in Wales. Economic growth, productivity improvement, competitiveness, and innovation are all directly linked to skills levels in Wales. Education at university level, more than any other level, provides major public and private benefits for individuals, increasing their long-term earning potential and prosperity, benefiting their communities, and providing life-changing opportunities that transcend social and economic barriers.
- 2.2. **Welsh universities account for around half of all research and development expenditure in Wales and have the highest percentage of 'world leading' research in terms of impact of any part of the UK.** A key determinant of long-run economic growth in Wales, universities' research and innovation activities drive technological transformation and translate into real-world applications and production across a diverse range of areas in Wales such as bilingualism, policing, flooding, dementia, childcare, mental health, public housing, and community violence.
- 2.3. Welsh universities are also major economic contributors in their own right and a number of universities rank among the largest organisations in Wales and among the largest registered charities in the UK. In 2015/16 they generated £5.0 billion of output for the Welsh economy, including £1.51bn of their own output and an additional £3.52 bn created by their activities. The expenditure of Welsh universities, their students and visitors accounted for £2.7bn and made 4.8% of the total Welsh Gross Value Added (GVA), which for instance was more than the Welsh Government priority sectors of the Creative Industries sectors and Food and Farming combined.
- 2.4. **Welsh universities created almost 50,000 jobs in Wales** (3.5% of the Welsh total) in 2015/16, including 16,695 within universities and 32,521 within the wider Welsh economy.

Their economic impact is spread widely across local authority boundaries in Wales even in areas which do not host a university.

- 2.5. Universities also bring an important international dimension to Wales, including significant export earnings and inward investment. **Welsh universities generated 4.1% (£544m) of all Welsh export earnings.** The off-campus expenditure of EU students in 2015/16 generated over £110 million of output in the UK (of which £83 million was in Wales) and generated 934 full time equivalent jobs in the UK (692 in Wales). Overall, EU students generated over £51 million of UK GVA (£37 million in Wales).

### 3. Summary

- 3.1. The small increase in the budget for higher education for 2018/19 (and 2017/18 contained in the supplementary budgets) will help to mitigate significant risks to core activities. However, this followed seven consecutive years of budgetary reductions, and the current levels of funding continue to present significant challenges for universities in Wales.
- 3.2. We would expect the 2019-20 budget to provide a significant increase in core funding for universities, implementing the recommendations of the Welsh Government's 'Independent review of higher education funding and student finance arrangements' (Diamond Review) to create a positive long-term sustainable future for the Welsh higher education sector. We also expect the indicative figures for 2020/21 to show further substantial increases to the HE budget as further funding becomes available due to changes in student support arrangements.
- 3.3. Further, we look forward to future budgets reflecting the implementation of the Reid review recommendations at the earliest opportunity given that the report, which the Welsh Government has accepted in principle, highlights the urgent need for additional research and innovation funding in the light of external pressures and funding opportunities.
- 3.4. We also expect the budget to include provision for specific policy initiatives previously announced including additional funding for degree apprenticeships and interim funding for postgraduate study.
- 3.5. In the short term there is an urgent imperative for further capital investment in universities in Wales, to help bring Welsh estates up to the levels enjoyed by students elsewhere in the UK and to ensure that Welsh universities continue to attract students.
- 3.6. We also expect contingency to be made and devolved to Wales to deal with the outcome of the negotiations regarding the UK's withdrawal from the European Union. This 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.

4. **Q1: What, in your opinion, has been the impact of the Welsh Government's 2018-19 budget?**

- 4.1. Universities in Wales will continue to face a very challenging financial period until the Diamond and Reid review recommendations are fully implemented.
- 4.2. The most recent budget statement contained a revenue budget for HE for 2018/19 of £121.5m, compared to the £104.5m in 2017/18. This contained £4.1m as the start of the implementation of the recommendations of the Diamond Review, and a further £17m for separate specific purposes. In addition, £10m capital funding for 2018/19 was also ring-fenced for HE to support estates rationalisation. Full details are provided in Appendix A.

Impact for universities

- 4.3. HEFCW's last three years' funding allocations (2016/17, 2017/18 and 2018/19) were the three lowest allocations on record. The Welsh Government's budget for HE represented an overall budget reduction of 73% (£331m) between 2010/11 and 2018/19.
- 4.4. The latest data now confirm that the university sector in Wales went into deficit in 2016/17 by £10m as costs rose and income fell (including a reduction of £10m in public funding).<sup>1</sup>
- 4.5. As highlighted in previous budget submissions, the impact of reduced funding is most significant for activities where replacement income is not easily substituted. Over three quarters of HEFCW's funding for 2018/19 was allocated to priority areas including core research funding (QR funding), expensive subjects and part-time provision to address the major areas of concern, but these too remain at significantly reduced levels of funding compared to previous years.
- 4.6. As recognised by the Diamond Review, the current higher education funding position is not sustainable in the long term, and investment in universities is needed alongside a sustainable student support package.
- 4.7. A key concern is to ensure that Welsh universities are able to succeed in an increasingly competitive UK and global funding environment and have the necessary resources and infrastructure to adapt to external changes. **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.

---

<sup>1</sup> HESA Finances of Higher Education 2016/17 (see [here](#)).

- 4.8. As fees increase students have become more focused on investment in high quality teaching provision. The gap in equivalent funding for England and Wales was around £63m in total for 2018/19 in our estimate and is particularly stark in relation to teaching funding.
- 4.9. As highlighted most recently in the Reid Review, Welsh universities continue to struggle to leverage their fair share of UK funding, as they compete at a disadvantage compared to their counterparts in the UK. The UK government's major funding investment in research and innovation and as part of its industrial strategy provides a significant opportunity, but urgent investment is needed to help universities in Wales to lever their fair share of the increases in UK funds for the benefit of Wales.
- 4.10. There is a very significant funding gap between Wales and other parts of the UK for research and innovation. Based on comparative population size (as used in the Barnett formula) Scotland received the equivalent of £164m for research and innovation alone in 2018/19 compared to the £71m received in Wales, and England received £117m. As highlighted by the Reid Review current funding levels mean that Wales is hampered in adapting to an external environment where an increasing proportion of funding is based on UK competitive opportunities. The standard UKRI terms of grant for instance only fund 80% of full economic costs – the current UK system relies on core research and infrastructure funding for the rest, and Reid rightly highlights QR funding as a priority for Wales.
- 4.11. In particular, 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>2</sup>.
- 4.12. 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 as they can't provide match funding. Introducing funding for knowledge exchange is a key recommendation from the Diamond Review, and the Reid Review.
- 4.13. Additional capital investment in universities remains a priority for institutions in Wales. Capital investment is essential for attracting staff and students, offering a competitive student experience, creating the right conditions for world-class research, and plays a central role in

---

<sup>2</sup> <http://www.hefce.ac.uk/pubs/rereports/year/2015/heifeval/>

projects that bring benefits to local communities. Capital funding budget for universities ceased in 2010, and until the last budget announcement in 2018 they were not able to draw on capital budget unlike universities in other parts of the UK. Despite the welcome £10m for 2018/19, both England and Scotland received approximately double the capital investment in 2018/19 (see Appendix A). The need for continued capital investment is discussed more fully in Appendix B.

- 4.14. There remain significant financial uncertainties for universities, particularly in relation to Brexit including the replacement of EU funding, and access to future EU funding programmes, and changes to immigration rules which currently enable student and staff mobility within the EU. These are discussed in more detail below. Overall investment in replacement funds should match the scale of challenge to be addressed by Wales in the light of global trends and competition.
- 4.15. Changes in fee and funding arrangements elsewhere within the UK will have a significant impact on Wales, given the high cross border student flows and operation of a UK wide higher education market. Universities in England are now able to charge higher fees than universities in Wales (up to £9,250), which impacts on the Welsh student support budget. England is currently undertaking a review of its future HE funding arrangements.
- 4.16. Universities are subject to a range of more general financial pressures including for instance rising pension scheme costs, and ratings revaluations.

#### Impact beyond higher education

- 4.17. The financial impact on universities in turn has major consequences for the wider economy and the well-being of future generations in Wales.
- 4.18. The comparative lack of investment in higher education in Wales over the past decade represents a significant loss of opportunity and has long-term consequences. In our view, Wales should take this opportunity to review the scale and scope of its investment in research and innovation and be much more ambitious in its future plans. Europe 2020 aims to ensure that investment across Europe increases to an average of 3% of GDP.
- 4.19. Universities in Wales are well placed to increase their activities and build capacity for sustaining activities over the longer-term, acting as a catalyst for further activity and acting as anchor institutions in partnership with wider networks and growth and innovation eco-systems.
- 4.20. As highlighted by a recent Government Office for Science report, the skill levels of a country are directly linked to economic growth, productivity improvement, competitiveness, and

innovation.<sup>3</sup> Long-run economic growth is above all determined by knowledge accumulation and technological progress.<sup>4</sup> Estimates typically attribute 20% of the UK's economic growth in recent decades to improved workforce skill levels.<sup>5</sup> Countries with high levels of innovation on average tend to have a stronger track record of investment in higher education.<sup>6</sup> A number of studies also point to the importance of interaction between universities and business for stimulating innovation and economic growth.<sup>7</sup>

4.21. The level of investment in higher education has a major knock-on impact for the rest of the economy. For every £100 million increase or decrease in Welsh university expenditure there is a £100 million knock-on increase or decrease in output in other industries in Wales.<sup>8</sup> For every 100 direct full time equivalent (FTE) jobs created or cut in universities, we would expect to see another 120 UK jobs created or cut outside the universities in other industries.<sup>9</sup>

4.22. Wales continues to lag significantly behind the rest of the UK in research and development investment. A regional analysis of UK GDP spent on research and innovation shows that Wales is continuing to underinvest in research and development.<sup>10</sup> 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.

**5. Question 2: What expectations do you have of the 2019-20 draft budget proposals? How financially prepared is your organisation for the 2019-20 financial year, and how robust is your ability to plan for future years?**

Budget expectations

5.1. We would expect to see a significant increase in budget for higher education for 2019/20 and a further significant increase in the budget for 2020/21 as a result of the implementation of the Diamond Recommendations and to support further specific initiatives as previously confirmed by the Welsh Government.

5.2. The Welsh Government has committed to implementing the full student finance and funding

---

<sup>3</sup> Government Office for Science, "Future of Skills and Lifelong Learning", 2017.

<sup>4</sup> OECD, "The OECD Innovation Strategy - Getting a head start on tomorrow." 2010.

<sup>5</sup> BIS, "UK Skills and productivity in an international context", December 2015.

<sup>6</sup> Universities UK. "Higher Education in Focus: Driving Economic Growth", 2011.

<sup>7</sup> Lambert, R., Lambert Review of Business-University Collaboration - Final Report, HMSO, 2003.

<sup>8</sup> Kelly U., McNicoll I., & Viewforth Consulting Ltd, The Economic Impact of Higher Education in Wales, Jan 2018 ([here](#)).

<sup>9</sup> Kelly U., McNicoll I., Viewforth Consulting Ltd, The Economic Impact of Higher Education in Wales, Jan 2018 ([here](#)).

<sup>10</sup> National Centre for University and Business, Growing the Value of University-Business Interactions in Wales, June 2017.



package recommended by the Diamond Review. When fully implemented, this will be a significant step towards ensuring the future sustainability of higher education in Wales and will be an exemplar for other countries to follow promoting Wales' reputation as a progressive nation.

- 5.3. So far implementation of the university funding recommendations has led to an increase in the 2018/19 budget of £4.1m compared to the 2017/18 baseline. We would expect the minimum addition to the baseline to be in the order of £24m for 2019/20 and £55m for 2020/21 respectively, with a potential for up to £20m further Diamond funding available for 2020/21.
- 5.4. It will be important to ensure that the Diamond funding provides the support for core activities as intended and is not hypothecated for different purposes or specific additional activities.
- 5.5. We would also expect the budget allocation to reflect the additional funding for apprenticeships and postgraduate support as previously announced. As these were not all included in last year's budget plan for 2019/20 **we expect the figures in this year's budget for 2019/20 to be higher than last year's indicative figure.**
- 5.6. We welcome that the Welsh Government has recently accepted the recommendations of the Reid Review in principle.<sup>11</sup> The report highlights the urgency for the additional funding to enable universities to adapt to the new UK funding environment, and to have the necessary infrastructure to cope with Brexit and a major shift away from EU WEFO funding towards the competitive awarded funding from UKRI, research charities and industry.

#### Financial preparedness and ability to plan

- 5.7. 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>12</sup> universities are highly capable in managing their financial affairs. Provided the Diamond recommendations continue to be implemented as envisaged, we would expect universities to be able to manage their financial affairs successfully. However, there remain major issues and risks relating to the future sustainability and competitiveness of universities.
- 5.8. 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

---

<sup>11</sup> Welsh Government News, 6 June 2018 ([here](#)).

<sup>12</sup> Wales Audit Office, Higher Education Finance, 21 November 2013 (as published in January 2014).

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.

- 5.9. The capital funding received for 2017/18 and 2018/19 is extremely welcome and important as a result. As previously noted that there is already significant capital funding for this in England. A strong case can be made for continuing to provide or increased levels of capital funding in Wales to address the historic gaps and comparative under-investment. The importance of capital funding is discussed in more detail in Appendix B.
- 5.10. A range of financial uncertainties continue to pose a significant challenge to universities' ability to plan.
- 5.11. In particular, this includes arrangements for the UK's withdrawal from the European Union. The following have significant financial implications for universities in Wales (see further discussion under Question 3):
- Residency rights for EU nationals working in the university sector and their dependents
  - The UK's continued participation in the Horizon 2020 research and innovation programme to the end of the programme period
  - The replacement of European Structural Funds at a devolved level
  - Mobility opportunities for UK staff and students.
- 5.12. Universities also continue to navigate emerging opportunities and challenges. The UK Government major increase in R&D investment of 20% a year by 2020-21, a total increase of £4.7 billion new money provides significant opportunities for Wales<sup>13</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.
- 5.13. 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.
- 5.14. 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.

## 6. Question 3: The Committee would like to focus on a number of specific areas in the

---

<sup>13</sup> <https://www.gov.uk/government/news/autumn-statement-boosting-uk-research-innovation>



scrutiny of the budget, do you have any specific comments on the areas identified below?

- Approach to preventative spending and how is this represented in resource allocation (Preventative spending = spending which focuses on preventing problems and eases future demand on services by intervening early), particularly in relation to the financing of local health boards and health and social care services
- Sustainability of public services, innovation and service transformation
- Welsh Government policies to promote economic growth, reduce poverty, gender inequality and mitigate welfare reform
- The Welsh Government's planning and preparedness for Brexit
- How the Welsh Government should use taxation and borrowing powers, particularly in relation to the Welsh Rate of Income Tax
- How evidence is driving Welsh Government priority setting and budget allocations
- The Welsh Government policies to strengthen the economy and promote innovation
- How the Future Generations Act is influencing policy making

**(a) Approach to preventative spending**

- 6.1. Addressing the resource issues in relation to higher education at the earliest possible stage is necessary to prevent significant problems and resource requirements for future years. Insufficient funding of higher education in the present simply stores up longer-term problems that will take years to remedy.
- 6.2. Investment in higher education in the current budget is likely to generate savings and prevent more costly remedial action further down the line for instance in relation to:
  - 6.2.1. **Research and innovation.** Investment in core research and innovation funding including capital funding and project funding (along the lines of HEIF) will enable universities in Wales to compete on more equal terms with universities in England for UK funding and draw in a much greater share of the funding from an early stage. QR funding in particular has a multiplier effect with successive projects building on the foundations of QR funding enabling universities to attract the brightest researchers and reinvest funding from successful competitive funding awards.
  - 6.2.2. 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. 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 future skills needs and gaps and structural challenges such as 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.

6.2.3. **High cost subjects.** Without further preventative public investment, there is a significant risk that provision in high cost subjects will move into decline. The cost of teaching exceeds £9k in about half of subject areas, with science, technology, and engineering subjects predominantly accounting for higher cost subjects alongside other notable high-cost subject areas e.g. performing arts. Once the infrastructure for such courses is removed, the courses become far more difficult and costly to replace and would take a number of years to implement. This creates a significant risk of Wales' higher education system not being able to cater to the diverse needs of the future workforce and 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.

6.2.4. **Part-time provision.** Without further investment in the higher education budget in line with the Diamond recommendations, there is 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.

6.2.5. Part-time enrolments in Wales have fallen year on year over the past decade and beyond, although not as dramatically as in England. There were 54,2708 part-time students enrolled at Welsh institutions (including the OU in Wales) in 2007/8 but only 35,845 by 2016/17 (the latest year on record), a reduction of a third of all part-time enrolments (33%) across that period. Measures to prevent further decline are needed as soon as possible.

6.3. Work by universities also has a wide-ranging preventative **impact on their communities** in other ways. For example:

- A programme of research by Welsh universities reduced the number of people being taken to emergency departments by ambulance. 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.
- 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
- Aberystwyth University's work with the local health board to deliver cardiac rehabilitation

classes and Parkinson's Group classes.

- Cardiff Metropolitan University's delivery of sports programmes in Cardiff, including organising one of the largest centrally organised schools' competitions in Britain.
- 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.

***(b) Sustainability of public services, innovation and service transformation***

- 6.4. Although an important part of the income of universities in Wales comes from public funding, Universities are not public services but are independent educational bodies with charitable status who operate in a highly regulated market.
- 6.5. Nevertheless, universities continue to work with public services. Its research, consultancy and innovation and educational activities also contribute to the transformation of public services in many areas.

***(c) Welsh Government policies to promote economic growth, reduce poverty, gender inequality and mitigate welfare reform***

- 6.6. Higher education remains a major catalyst for social mobility and Welsh universities have a long track record of comparing favourably to their peers in the rest of the UK in terms of the percentage of students from under-represented groups.<sup>14</sup>
- 6.7. Nevertheless, there is still much to be done with further investment to reduce inequalities and promote higher education. Investment in universities has significant consequences for students and access to higher education. Further reductions - particularly for part-time provision – are likely to have a detrimental impact on disadvantaged groups.
- 6.8. We would expect the Welsh Government to continue to seek to increase the number of students entering higher education as a priority. The application rates for full-time undergraduate Welsh students in the 2018 UCAS applicant cycle, for instance, were lowest in the UK.<sup>15</sup>
- 6.9. From 2018/19, the Welsh Government is implementing the proposals from the Diamond Review 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

---

<sup>14</sup> See HESA UK Performance Indicators for widening participation: <https://www.hesa.ac.uk/news/01-02-2018/widening-participation-tables>

<sup>15</sup> Application rates for full-time undergraduate 18 year olds in the 2018 UCAS applicant cycle were 32% for Welsh students (37.4% for English, and 32.5% for Scottish excluding HE in FE colleges) – see [here](#).

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 community cohesion.

***(d) The Welsh Government's planning and preparedness for Brexit***

6.10. Universities in Wales currently 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.

6.11. Uncertainty over arrangements for exit from the European Union continue to pose significant challenges for universities, and we continue to support the Welsh Government in its attempts to address this. In particular there are two areas that are critical for universities.

Immigration rules and the mobility of EU students and staff

6.12. It is essential that issues of student and staff mobility are addressed and communicated to prospective staff and students at the earliest possible stage.

6.13. European students make an enormous contribution to Wales – academically, culturally and economically. There were 6,235 EU students at Welsh universities in 2016/17, equivalent to 5% of the student population, and the sudden disappearance of the fee income could impact heavily on universities.

6.14. EU staff play a critical role in supporting the excellence of Wales' research base, as well as the quality and diversity of teaching provision. There were 1,485 staff from the EU at Welsh universities in 2016/17, forming around 7% of the academic workforce.

EU replacement funding

6.15. Universities were the third largest recipient of structural funds in the last round, and EU funding remains the main source of capital funding and funding for innovation including industry collaboration and skills development for universities in Wales at present. Although there are opportunities for reviewing precisely how funds could be used in future, arrangements for replacing EU funding streams will be critical in determining the future ability of universities to contribute to the economic and social agenda in Wales.

6.16. Public data shows that between 2014/15 and 2016/17, for instance, universities in Wales

received £49.5m for collaborative research from the EU.<sup>16</sup> However, a more complete picture of the EU funding streams that affect universities is provided below:

- 6.17. **Horizon 2020** is the current major EU research and innovation programme with a budget of around 70 billion euros for the period 2014-2020. The Welsh higher education sector has been successful in winning funds from this highly competitive programme and universities have accounted for nearly two-thirds of Welsh participations in Horizon 2020 and funding received by Welsh organisations under Horizon 2020.<sup>17</sup>
- 6.18. In 2016/17, for instance, Welsh universities accounted for 64% of participations and 66% of Horizon 2020 funding from Wales.<sup>18</sup> This reflects Welsh universities' strengths in Excellent Science, as well as significant contributions to the Societal Challenges.
- 6.19. Question marks over future access to this scheme need to be resolved as soon as possible.
- 6.20. **European Structural and Investment Funds (ESIF)** play a crucial role in supporting universities to generate local growth and jobs by turning ideas and research discoveries into new companies, by fostering entrepreneurship and employability, and by attracting talented people to study, work and spend in their areas. Wales has received over £2bn in Structural Funds since 2000. As the third largest recipient of structural funds in the last round Welsh universities are very exposed to the withdrawal of this funding.<sup>19</sup> ESF funded projects at universities in the UK have in particular, for instance, supported the development of a pipeline for skills progression. EU funding also forms an important component of the City and Growth Deals in Wales.
- 6.21. Students at Welsh universities have benefited from the opportunities to study and work elsewhere in Europe provided by the **Erasmus+ scheme**. In 2015/16 over 700 students at Welsh universities took part in the Erasmus+ mobility programme providing them with an academic, career and life-enhancing opportunity. In the period 2007-2014 over 4,500 students at Welsh universities participated in the scheme.
- 6.22. **Marie Skłodowska-Curie Actions (MSCAs)**: Participation in the MSCAs allows universities to host talented researchers from across Europe and to create strategic partnerships with leading institution.
- 6.23. Access to **European Investment Bank funds** has also enabled large-scale infrastructure

---

<sup>16</sup> HESA HE-BCI 2015/16 and 2016/17, Part B Tables 1 & 3.

<sup>17</sup> <http://gov.wales/funding/eu-funds/horizon2020/?lang=en>

<sup>18</sup> <https://gov.wales/docs/wefo/publications/horizon/180307-horizon-annual-report-2017-en.pdf>

<sup>19</sup> <https://gov.wales/funding/eu-funds/2014-2020/approved-projects/?lang=en>

improvement and development at several Welsh universities. An agreement needs to be in place to ensure continued access to the EIB in the future.

- 6.24. If the EU funding streams are not replaced they will have a major direct impact on the income for universities which could make an already challenging funding position even more difficult to manage. The impact of the reductions will not be felt evenly across the sector, and universities will need to take individual action accordingly to ensure their future sustainability.
- 6.25. There is currently no capacity for sustaining activities currently supported by EU funding streams unless replacements are found. If funding is not replaced, activities of the kind that are currently supported by EU funding will simply not take place, and the infrastructure that provides the spring board for future project-based activities would be dismantled.
- 6.26. The withdrawal of funding would have a significant impact on wider university activities. In particular, 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.
- 6.27. 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.

***(e) How the Welsh Government should use taxation and borrowing powers, particularly in relation to the Welsh Rate of Income Tax***

***(f) How evidence is driving Welsh Government priority setting and budget allocations***

- 6.28. Universities Wales welcomed the Welsh Governments response to the Diamond Report on HE student finance and funding, and its acceptance of its recommendations. The Diamond review appears to provide a strong basis for future arrangements, based on a strong body of evidence across the full range of stakeholders.
- 6.29. In particular, we hope that the Welsh Government will look closely at the Reid Review. The recommendations of this report will also be critical for universities and for research and innovation in Wales more generally.

***(g) The Welsh Government policies to strengthen the economy and promote innovation***

- 6.30. In line with the comments above (see paragraph 2 in particular), universities play a major role in the Welsh economy and the promotion of innovation. We welcome the increasing recognition of this in terms of budgetary policy.



***(h) How the Future Generations Act is influencing policy making***

- 6.31. Universities recognise the importance of taking the Future Generation Act goals into account in decision making and communicating to a wider public the very significant contributions that universities make to the achievement of its goals.
- 6.32. HEFCW's recent strategy for higher education strategy for Wales prepared in consultation with universities for the Welsh Government, for instance, was designed to address the goals of the Well-being of Future Generations Act and HEFCW produces an annual well-being statement.<sup>20</sup> They are also currently consulting on a sector strategy, that takes into account and demonstrates universities contributions to the wider public goals.
- 6.33. These demonstrate, for instance, the importance of:
- Internationally excellent higher education for the goals of a prosperous and resilient Wales.
  - Ensuring that HE is relevant and accessible to all for achieving the goal of a healthier and more equal Wales and a Wales of cohesive communities.
  - Promoting a system of HE that is financially, economically, socially, and environmentally sustainable for the goal of maintaining a resilient Wales.
  - Universities international activities and connections for promoting a globally responsible Wales.
- 6.34. In particular, the 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.
- 6.35. Wales also continue to contribute to wider public and social objectives. Notably, all Welsh universities, for instance, 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 as contracts arise from 2018/19<sup>21</sup>.

---

<sup>20</sup> See [here](#)

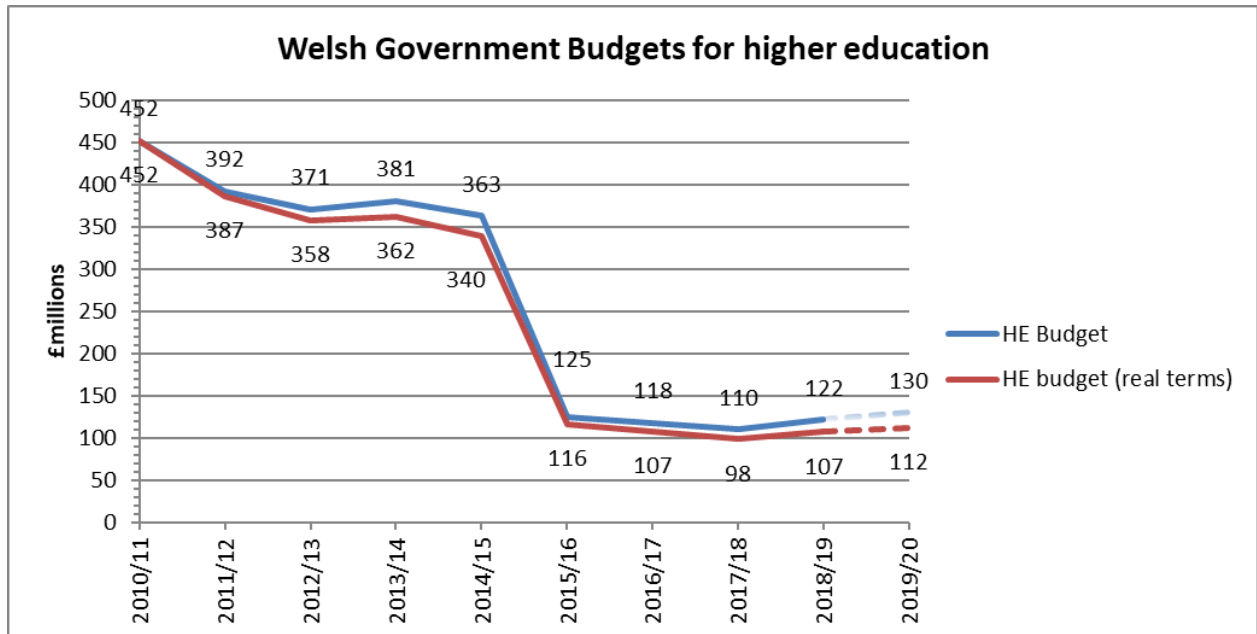
<sup>21</sup> <http://www.uniswales.ac.uk/universities-wales-statement-on-the-living-wage-commitment/>



## Appendix A – HE Budget and HEFCW funding allocations 2018/19

### What was the Welsh Government budget for HE for 2018/19?

- 1.1. The most recent budget statement contained a revenue budget for HE for 2018/19 of £121.5m, compared to the £104.5m in 2017/18.
- 1.2. The Final Budget included an increase of:
  - £4.1m as the start of implementation of the Diamond Review recommendations, and
  - £5m to deal with immediate issues arising from tuition fee changes, following the decision not to increase maximum full-time undergraduate fees in response to increases in England, as announced by the Cabinet Secretary on 18 October 2017.
- 1.3. The First supplementary budget included
  - a further £5m as in interim measure to support post graduate study in Wales; and
  - £3m to develop degree apprenticeships.
- 1.4. £10m ring-fenced capital funding for 2018/19 was also additionally made available to HE (via HEFCW) to support estates rationalization.  
£5.75m capital funding was also made available for 2017/18.
- 1.5. The HE budget for 2018/19 compared to previous years in both nominal and real terms is summarised below, including the indicative figures for 2019/20 contained in last year’:



Source: Welsh Government 2nd Supplementary Budgets for 2010/11 to 2017/18, 1st Supplementary Budget 2018/19 for 2018/19, and Final Budget 2018-19 plans for 2019/20. Real-term figures provided by Universities Wales stated at 2010/11 market prices based on HM Treasury GDP deflators, March 2018.

## How does funding for Wales compare to funding in other parts of the UK?

- 1.6. HEFCW's grant allocation was £138 million for 2018/19 academic year (drawing on the Welsh Government budgets for 2018/19 and 2019/20).
- 1.7. Total funding allocations in England for teaching, research and innovation in HE made by OfS and Research England amounted to £3,569m in 2018/19. The pro-rata equivalent for Wales, based on mid-year population estimates, was £201 million – and this is also the amount that would also flow to Wales under the Barnett Formula. This means that the equivalent of £63m more funding was allocated to HE in England. Note also that this is in addition to the increased fee income obtained from the maximum full-time undergraduate fee increase.

Grant Allocations - England	Total (£M)	Estimated Barnett consequential/pro rata equivalent for Wales
<b>Office for Students (OfS)</b>		
Recurrent teaching	1,290	72
Funding for national facilities and regulatory initiatives	51	3
Capital funding for teaching	150	8
<b>Total OfS funding*</b>	<b>1,491</b>	<b>84</b>
<b>Research England</b>		
Recurrent research	1,665	94
Recurrent knowledge exchange*	210	12
<i>Total non-capital grants</i>	1,875	105
Formula-based research capital	183	10
National facilities and initiatives	20	1
<i>Total capital grants</i>	203	11
<b>Total Research England funding</b>	<b>2,078</b>	<b>117</b>
<b>Total Funding for HE</b>	<b>3,569</b>	<b>201</b>

\* Note: £47m was allocated from OfS's budget to Research England to administer in accordance with methods agreed with OfS. The £47m is shown under Research England and the figures for OfS adjusted accordingly. The above funding does not include UKRI funding (for UK-wide initiatives) except for Research England (England only) funding.

### Sources:

OfS 2018.20, Recurrent and formula capital funding for 2018-19 (11 May 2018)

<https://www.officeforstudents.org.uk/media/50bf30fa-48e6-4663-9d56-d66ebef7a047/ofs-201820.pdf>

Research England Circular letter RE-CL-2018-01 Funding for 2018-19, 12 April 2018

<https://re.ukri.org/documents/2017/circular-letter-funding-decisions-18-19/>

ONS, Population Estimates for UK, England and Wales, Scotland and Northern Ireland: Mid-2017, June 2018

<https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationestimates/datasets/populationestimatesforukenglandandwalesscotlandandnorthernireland>

1.8. Total funding for universities (excluding funding for colleges delivering HE) in Scotland for 2018/19 is shown below. For its relative population size, Scotland is investing significantly more in research and innovation than either England or Wales. Its funding for teaching is significantly more, but direct comparison is more difficult as this reflects the decision to maintain maximum full-time undergraduate fees at a lower level.<sup>22</sup>

Scottish Funding Council Grant	Final AY 2018-19 budget £ millions	Equivalent for Wales based on population ratio* £ millions
<b>Teaching</b>		
Main Teaching Grant	633	365
Other teaching funding	28	16
Total Teaching Funding	<b>661</b>	<b>381</b>
<b>Research and Innovation</b>		
Research Excellence Grant	236	136
Research Postgraduate Grant	35	20
University Innovation Fund	13	8
Total Research and Innovation	<b>285</b>	<b>164</b>
<b>Other</b>		-
Strategic Funding	61	35
Other	22	13
<b>Total Recurrent funding</b>	<b>1,029</b>	<b>593</b>
<b>Total Capital funding</b>	<b>41</b>	<b>24</b>
<b>Additional ring-fenced funding for research and knowledge exchange</b>		
Global Challenges Research Fund (REG)	10	6
DBEIS Research Capital	17	10

Sources:

Funding figures taken from Scottish Funding Council SFC/AN/10/2018 Announcement of Outcome Agreement Funding for Universities - Final Allocations for AY 2018-19, 18/05/2018, Table 1 as updated by SFC/AN/12/2018 Additional funding for research and innovation in 2018-19, July 2018.

<http://www.sfc.ac.uk/publications-statistics/announcements/announcements-2018/SFCAN102018.aspx>

\*Wales: Scotland population ratio (0.5761) calculated from ONS, Population Estimates for UK, England and Wales, Scotland and Northern Ireland: Mid-2017, June 2018.

<https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationestimates/datasets/populationestimatesforukenglandandwalesscotlandandnorthernireland>

<sup>22</sup> For 2018/19 tuition fees for eligible Scottish-domiciled/European Union (EU) students were: · Full-time first degree £1,820, Other undergraduate £1,285, and Taught Postgraduate £5,500.

## 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 over £5 billion.<sup>23</sup> A recent Frontier Economics report<sup>24</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 Welsh universities from their business and community interactions with other organisations, including the private sector, totaled over £153 million in 2016/17<sup>25</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>26</sup>. This is through investment in the latest research facilities, which in turn attract the brightest and best researchers from across the world.

---

<sup>23</sup> Ursula Kelly, Iain McNicoll, Viewforth Consulting Ltd, The Economic Impact of Higher Education in Wales, January 2018 (Commissioned by Universities Wales: [http://www.uniswales.ac.uk/wp/media/UNI010-Economic-Impact-Report\\_FINAL.pdf](http://www.uniswales.ac.uk/wp/media/UNI010-Economic-Impact-Report_FINAL.pdf))

<sup>24</sup> 'A review of HEFCE Capital expenditure – a report by Frontier Economics' HEFCE 2015

<sup>25</sup> HESA HE-Business and Community Interaction Survey data 2016/17 (see <https://www.hesa.ac.uk/data-and-analysis/providers/business-community/chart-2>)

<sup>26</sup> 2014 Research Excellence Framework (REF)



- 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 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 remains a concern for some.
- 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 is currently estimated at £63m for 2018/19 (see Appendix A) when the allocations of HEFCW and OfS and Research England are compared. This includes the pro rata equivalent of £19m capital funding and a further £4m for national facilities and regulatory initiatives. 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.