

Universities Wales response to the Finance Committee of the Senedd's call for information on Welsh Government Draft budget proposals for 2023/24

About Universities

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

Summary

1. Wales faces a range of profound and wide-ranging challenges over the next few years, and the role of universities in tackling these challenges will be vital. These include the economic and social recovery from the pandemic, the need to address climate change, dealing with the cost of living crisis, demographic shifts, increased challenges in reducing relative disadvantage, and structural change in the skills and labour markets including the impact of technological change and possibility of shrinkage in high-employment occupation areas in Wales.
2. Welsh universities continue to play a vital role for our communities, regions and nationally. Investing in higher education remains one of the few and most effective long-term levers of economic and social prosperity at the Welsh Government's disposal. As well as the economic impact of our universities – spending by universities and students generates over £5bn of economic output and 1 in every 20 jobs in Wales – our universities' work also supports social mobility, tackles poverty and related health impacts. Universities bring tangible benefits to people's lives through their research and innovation, the quality of which the most recent UK-wide assessment exercise (REF 2021) has again confirmed as world-class.
3. Universities across Wales provide the necessary education and training in key skills for economic development and life and well-being. From engineers to doctors, from nurses to teachers, from journalists to politicians. In the next five years alone, Welsh universities will provide 4,000 years' worth of upskilling and training to businesses and charities, and will train 10,000 nurses and 4,000 medics.
4. In keeping with the pursuit of their charitable purposes for public benefit, our universities take seriously their responsibilities to people in Wales and our communities. Welsh universities are leading the way in the UK in terms of promoting civic mission, and we are the only UK nation where all universities are signed up to a civic mission framework that sets out our activities and ambitions to support communities and public services. We are also the only UK nation where all universities are accredited living wage employers.

5. The ability of universities to tackle these challenges is heavily underpinned by public investment in higher education. Welsh universities continue to face a range of substantial risks including the recovery from the COVID-19 pandemic, the withdrawal of EU structural funds, uncertainty over policy and funding changes on a UK- level, increasing costs and an uncertain global outlook.
6. Increased funding as a result of the continued implementation of the Diamond Review recommendations has helped to bring core funding in Wales much closer in line with the rest of the UK than it has been for many years, but public funding for higher education providers remains a long way short of the level recommended in the Diamond Report in 2016 to ensure sustainability and Welsh universities are now faced with the prospect of the gap growing again.
7. In weighing the many competing budgetary priorities, we currently see the following areas as priorities for future budgets to enable universities to maximise their contribution:
 - Commitment to a clear plan for fully implementing the Diamond Review recommendations in real terms to deliver a sustainable funding model for higher education that tackles the severe real-term reduction in income and impact of significantly rising costs of provision.
 - Significantly increase in investment in research and innovation including providing competitive levels of quality-related research (QR) and innovation funding to enable us to secure additional investment.
 - Further support for expansion of degree apprenticeship programmes in Wales and bespoke funding support to enable universities to deliver lifelong learning.
 - Bridging funding to help with the increase of costs relating to energy, pensions and cost of living.
 - Provide additional funds that universities can use to direct hardship and welfare support at students and ease costs of accommodation and catering for them.
 - In particular, consider bridging support for universities to maintain the talent and infrastructure currently being lost or at risk of being lost as a lack of replacement for EU funding sources.

Consultation questions

Q1: Impact of the Welsh Government's 2022-23 Budget

1. What, in your opinion, has been the impact of the Welsh Government's 2022-23 Budget, including funding related to the recovery of the pandemic? Have Welsh Government business support policies been effective as the economic outlook for 2023-24 continues to worsen?

1. Welsh universities continue to face very significant financial challenges in 2022/23 as they deal with the aftermath of the COVID-19 pandemic and still uncertain post-Brexit arrangements and more general economic pressures. While the current financial position of Welsh universities is dealt with in greater detail under the next question, it is noted here that in 2022/23 rising costs – including energy and pensions - and inflation pose major issues for universities. Additional expenditure continues to be required to provide extra support for students and their welfare and to make infrastructure changes in the light of COVID.
2. The high level of inflation more generally is of particular concern to universities because of its impact on the real-term value of regulated fee income which has remained capped at the same level for a decade, and on core funding which, as a result of inflation, is still a long way short of the real-term levels identified by the Diamond Review as sustainable.¹
3. The withdrawal of EU Structural Funds now means that decisions have to be taken which will lead to the loss of the talent and infrastructure needed to support regional development in Wales. The reality is that the sector is now faced with a major challenge if it is to avoid further loss.
4. We welcomed that the Welsh Government responded to many of our key asks in determining its budget allocations for FY 2022/23 which we considered would best enable universities to help Wales to tackle the profound and wide-ranging challenges it currently faces, including the economic and social recovery from the pandemic, the need to address climate change, demographic shifts and structural changes in the workplace and labour market.
5. This included maintaining the core budget for higher education following the implementation of the Diamond recommendations, further support for expansion degree apprenticeships to meet some of the unmet demand and potential for growth in Wales, the much needed continuation of £10m capital funding to support estates and infrastructure, and further support for International Learning Exchange Programme and Global Wales programme both of which have a vital role to play in Wales's international strategy.²
6. The most notable of the budget priority areas we identified that the 2022/23 budget did not address was on core support for research and innovation. This has meant a continuing loss of opportunity to capitalise on the major increase in UK competitive funding in this area and to mitigate some of the impact of the loss of structural and Horizon funding.

¹ Review of higher education funding and student finance arrangements: final report, September 2016; [here](#). See in particular Table 6 p.51 and Table 7 p.58.

² More specifically, the resource budget allocated to higher education by the Welsh Government in its Final Budget for financial year (FY) 2022/23 was £203.5m, the same as allocated in the Final Budget for 2021/22. The first supplementary budget published in June 2022 increased this to £205m after including an additional £3.2m for degree apprenticeships and transferring £1.6m from the HEFCW budget to the International Learning Exchange Programme budget in respect of Global Wales III. The Welsh Government also made £10m capital funding available to HEFCW in its Remit Letter for FY 2022/23 from other budget lines.

Q2 Preparedness for the 2023/24 financial year and Welsh Government support

2. How should/could the Welsh Government support the economy and business following the pandemic, Brexit and inflationary and other economic pressures?

- How financially prepared is your organisation for the 2023-24 financial year, how will inflation impact on your ability to deliver planned objectives, and how robust is your ability to plan for future years?*

7. Welsh universities have continued to demonstrate their ability to manage the extreme financial risks and pressures of the last few years as well as they could. The latest set of accounts confirm that the pandemic had a severe impact on finances in 2019/20 and 2020/21 in diverse ways and there are a number of areas of potentially significant ongoing challenge. Moreover, managing these financial pressures is not without cost to the activities and benefits that universities deliver.
8. The underlying financial position is obscured in the accounts for these years by significant non-cash accounting adjustments for pensions and one-off income and expenditure items relating to the pandemic.
9. The detail of the accounts, however, points to a number of areas of potential ongoing difficulty and challenge. Along with the rest of the UK HE sector, universities experienced major reductions in accommodation income, facilities and commercial income in the third term of 2019/20 and 2020/21. The accounts show that 'other income' accordingly fell to £256m in 2019/20, then to £239m in 2020/21 - £37m and £53m less than the average annual income between 2015/16 and 2018 respectively. Initial indications for 2022/23 are that this income has not yet fully recovered to pre-pandemic levels.
10. Cost of living including energy costs are a major challenge for the sector, **with accounts up to 2020/21 already showing costs increasing faster than income.** As organisations with large estates and campuses energy costs have large impact on running costs. Welsh universities currently have 75 sites with more than 1,500 buildings (about a third of which are residential) occupying an area of 2,376 hectares. Their total energy consumption in 2020/21 was 331 million kWh. Despite a track-record for energy efficiency savings, and more than tripling the renewable energy they generate themselves over the last five years (to 1.7 million kWh in 2020/21), this is likely to be higher in subsequent years as universities return to pre-covid levels of estates use and cater for a growing number of students.
11. In the last 5 years, energy prices have already risen sharply. The average non-domestic energy prices in 2017 across the UK as recorded by the UK government were 10.38 pence per kWh for electricity, and 2.13 pence per kWh for gas. By the September 2022 the prices have reached 18.64 pence/kWh for electricity and

- 4.76 pence/kWh for gas, increases of 79% and 124% over the five-year period respectively. Ofgem will impose a price cap of 34.0p/kWh for electricity and 10.3p/kWh for gas from 1 October for domestic consumers, but universities will have to bear the full brunt of the anticipated further explosion in prices which some sources predict to reach as high as three times the current prices over the next year.
12. Welsh universities received significant additional one-off funding from the Welsh Government in 2019/20 and 2020/21 to provide additional support for students. However, universities are continuing to provide additional hardship and welfare support for students (see further detail under Q7 below). The impact of the cost of living crisis for students means that potentially more may be needed in future.
 13. Staff costs increased significantly in the latest set of accounts – mostly due to pension provisions. In particular, we expect further pension costs resulting from revaluations to be reflected in 2021/22 and future accounts. Employer contributions to the Teachers' Pension scheme increased from 16.4% to 23.6% in September 2019 as a result of decisions made by UK Government. Similarly, there has been an increase from 14% in 2009 to 21.4% in 2021 in the level of employer contributions to the Universities Superannuation Scheme (USS). **It is important to acknowledge that unlike other affected sectors, there was no government support for these increased costs.**
 14. Welsh universities (like other sectors) emerged from the pandemic with high borrowing levels. There was a notable increase in other creditors due within a year for instance, an increase in external borrowing from £832m to £944m in 2020/21 (including a notable use of unsecured loans). There was a correspondingly significant increase in interest and finance costs reported in the expenditure. **This is a particular concern as the external borrowing in Wales was already high in comparison of the rest of the UK sector and stood at 53% of total income in the latest set of accounts.**
 15. One of the key financial risks for universities remains recruitment, and in particular international recruitment. Welsh universities heavily rely on international fee income to support their core provision and the impact of inflation means that this reliance is increasing (see our discussion of the sustainability under Q7 below). International students also have a significant importance and economic impact for Wales more widely. **Our universities generate £661m in export earnings for Wales annually, the equivalent to 11.8% of service sector export earnings, largely thanks to the contribution of international students.**
 16. Although international student enrolments and fee income held up better than worst fears during the pandemic, the recruitment levels are still below the increases that universities formerly anticipated and rely on.
 17. The outcome of this is that universities are likely to continue to cope with the financial pressures in the short term, making the necessary adjustments to their cost base if income is not sufficient to cover the rising costs. Particularly for projects formerly supported by EU funding, this could mean a potential loss of valuable talent and infrastructure. However, there is a potentially major crisis looming in

terms of financial sustainability for the future which needs a plan of action to be prevented – which we discuss in more detail below, under Q7 (sustainability of higher education).

18. Given the role of universities in addressing the huge challenges faced by Wales - including through research and innovation, expenditure in the wider economy, employment and delivery of skills – the pressures faced by universities have the potential to impact a wide array of areas across Wales social and economic landscape.

Q3 Inflation and cost of living issues

3. *With inflation and costs of living issues continuing to escalate, what action should the Welsh Government take to help households cope with this latest crisis?*

- *How should the Budget address the needs of people living in urban, post-industrial and rural communities and in supporting economies within those communities?*

19. The current cost of living crisis highlights the need for action to help vulnerable households and communities in Wales, and universities are currently providing significant support for tackling the issues in diverse ways.

20. Investment in research and innovation is part of the solution. Researchers at Cardiff University, for example, have developed a tool which identifies households most in need of support to heat their home. The unique mapping system can establish, for the first time, where targeted energy saving measures would deliver maximum reduction in waste energy usage. As of August 2021, the mapping system has been used to target and assist 3,000 vulnerable households.

21. Ensuring that people stay in work will be essential. Universities have a major role to play in ensuring that individuals have the right skills and qualifications they need to give them the best possible chances of employment. In an age of digital and workplace transformation, the workforce will constantly need to adapt, reskilling and upskilling. In the next five years alone, 150,000 graduates from Welsh universities will enter employment or further study – including 80,000 graduates from Wales.

22. Universities themselves are major employers, and the benefits delivered by universities through Welsh Government funding are felt across Wales. Recent independent analysis by Viewforth Consulting³ found that Welsh universities generated over £5.3bn of output **and 1 in every 20 jobs in Wales**. Moreover, universities accounted for 11.8% of Wales's service sector exports in 2019/20. Crucially, 22% of jobs generated by universities are in areas of Wales with no physical university presence.

³ [The economic impact of higher education in Wales, Viewforth Consulting Ltd, July 2021, here](#)

23. Research by the National Centre for Entrepreneurship in Education (NCEE), predicts that over the next five years, universities in Wales will:
- Give 4,000 years' worth of upskilling and training to businesses and charities.
 - Help 1,300 new businesses and charities to be formed.
 - Be part of regeneration projects worth £536 million to the Welsh economy.
24. Universities have a crucial role to play in training the healthcare workers who have played such a pivotal role in the country's response to the pandemic. **In the next five years we will train 10,000 nurses and 4,000 medics**, working with the NHS to provide a critical pipeline of talent to help ensure it has the resources it needs to respond to the challenges it faces both now and in the future.
25. Up to now, EU funded projects have also played a major role in addressing regional skills and research requirements. KESS2 for instance, led by Bangor University in partnership with all universities in Wales, which aims to increase the research capacity of SMEs across Wales by linking partners with a PhD or research master's project.
26. Rising costs, however, are a major challenge for universities themselves both in the short-term and for longer term sustainability. There are particular challenges for higher education. Higher education is highly regulated, with full-time undergraduate fee income subject to a maximum imposed by legislation. Rising costs are not shared between business and consumer under the usual operation of supply and demand as they are in the open market, but have to be absorbed by universities.
27. Significant further rises in costs, in particular energy costs are expected/already being experienced by universities. We understand that universities have variously managed to hedge or mitigate increases so far, but this provides only limited coverage from next year. Future pension costs also remain a longer-term issue – with the further pension valuations yet to be reflected in the 2021/22 accounts as noted above.
28. Inflation more generally poses a very significant challenge. The real-terms value of the £9,000 maximum fee for full-time undergraduates from the UK (and EU until 2020/21) has fallen between 19%-30% since it was introduced, depending on which inflation index you use to measure it (GDP or RPIX), and is expected to fall significantly further within the next five years.
29. When measured by GDP inflation, the real-term value of the maximum fee when introduced in Wales in 2012/13 was worth £10,710 at current prices (i.e. AY 2021/22). Based on 2020/21 student numbers the annual loss of income is in the region of up to £128m at current prices.
30. When measured by RPIX, this figure is even higher. The original £9k fee was worth £11,707 and the annual loss of income is in the region of up to £214m at current prices and student numbers.

31. Furthermore, the UK Government's official forecasts indicate that by the end of the next five-year period, the value of the maximum fee will have fallen by a further -11% to £7,974 (GDP deflators), or -17% to £7,470 (RPIX).
32. It is also significant that the value of the maximum fee for full-time undergraduates remains £250 lower than in England (and the rest of the UK) throughout this period. The difference in value can be estimated at up to a maximum of £19.7m to Wales in 2020/21 (for 78,935 full-time undergraduate students enrolled in Wales from the UK and EU).
33. In addition, the impact of inflation has a very significant impact on the value of the Welsh Government's higher education budget allocations for higher education. The Welsh Government projections for budget are flat for the next two years which amounts to a significant decrease in real-terms and will apply further pressure to university finances.
34. Our concerns about the resulting impact on universities' longer-term financial sustainability are further discussed under Q7.

Q4 Building a greener economy and tackling climate change

4. Are Welsh Government plans to build a greener economy clear and sufficiently ambitious? Do you think there is enough investment being targeted at tackling the climate change and nature emergency? Are there any potential skill gaps that need to be addressed to achieve these plans?

35. Tackling climate change and its associated impacts will be one of the foremost challenges that Wales will face in coming years. Universities have a vital role to play in the global fight against climate change: through developing and innovating solutions addressing how we transition to a low-carbon future, and by training the future workforce with skills for a greener future in addition to meeting their own net zero targets.
36. It is entirely appropriate that tackling climate change should be a key focus for our economic recovery. Welsh universities are at the forefront of developing solutions that will deliver Wales's net zero ambitions and investment in research and innovation activity is essential in the successful delivery of this work. **The withdrawal of EU Structural Funds – which funded a range of important projects such as [FLEXIS](#), [SPECIFIC](#) and [ASTUTE 2020](#) – present significant risk in this area.**
37. Support for research and innovation to tackle climate change could encompass a range of activities from new innovations in energy capture and storage through to studies of the impact of climate change on communities and what approaches could be utilised to shift behaviours.
38. In terms of research, for instance, researchers at Aberystwyth University have provided evidence on biomass crops and land use to help the UK Government

develop a net zero policy. The research is also helping to de-risk investment by industry. The Energy Technologies Institute has estimated that the costs of the UK energy system would be up to £44 billion higher per year by 2050 without bioenergy. Engagement with industry and biomass supply chain actors, is helping to create an environment in which agriculture can become net zero by 2040.

39. One of the key areas which Welsh universities are collectively focusing on for their research and innovation includes 'Net zero, Energy capture and storage and Decarbonisation', working in collaboration through the Wales Innovation Network (WIN). Examples of the projects currently being undertaken in this area include:

- **Hydrogen Alliance** – led by Bangor University. The purpose of the project was threefold. Firstly, to review existing research and innovation activity within Welsh higher education institutions, focussing on the generation, storage and application of hydrogen. Secondly, to examine collaborative activity both between universities but also between universities and external partners in, or close to, Wales. Thirdly, to examine how research into hydrogen complements and integrates regionally with work into other low carbon energy sources. Through a collaborative and inclusive approach with partners, it will provide the basis for a future network which can develop a research and innovation based low carbon ecosystem in Wales combining University and relevant external expertise. It will identify themes within Institutions that might form the basis for collaborative funding bids. It will provide a forum for information exchange with other existing fora while being conscious not to create duplication
- **Irish Sea Platform** – led by Bangor University. The Irish Sea Platform project enabled a cross Irish and Celtic Sea workshop. Through the development of the workshop with Aberystwyth and Swansea Universities, engagement and alignment also occurred with Welsh Government and Welsh European Funding Office and the Agile Cymru program as well as the Ireland Wales shared statement and joint action plan and Universities and organizations around the Irish and Celtic Seas. The workshop, held on the 16th of September 2022, concentrated on the 'Blue Theme', a priority area for the Agile Cymru framework. The workshop overall had cross cutting themes of sustainability and coastal communities. As part of the [Irish Sea Portal pilot project](#) Bangor University (BU) and Bord Iascaigh Mhara (BIM) will bring together the Irish and Welsh shellfish sector with the aim of growing the shellfish sector by focusing on a study of juvenile shellfish settlement. The project includes modelling shellfish larval movement, monitoring spawning patterns, deployment of seed collectors and assessment of the resilience of seed, and providing an assessment of the current sustainability of shellfish as a baseline for further study.
- **SEACAMS** – led by Swansea University. The ERDF-funded SEACAMS (1+2) has supported Wales's marine energy and blue economy for more than 12 years. While ERDF funding is ending, industry demand for R&D support continues to grow. To extend SEACAMS' legacy, scoping meetings were held with industries, communities, civic organisations, local councils, regulators, policy makers and HEIs to review and analyse sector-specific evidence, needs and growth potentials; regional, national, and international policy and funding priorities;

local and regional R&D capacities, resources, and areas for growth. The project involved participation in key conferences to network with relevant businesses and stakeholders. A stakeholder workshop was also organised for focused, in-depth discussion of creating Coastal Alliance Wales to deliver short and long-term funding bids and R&D strategies.

- [Ecostructures](#) – led by Aberystwyth University. The Ecostructure project focused on gathering and collating evidence for the effectiveness of coastal eco-engineering through experiments and small-scale trials conducted by universities. The next stage of research and development in this field will require larger-scale trials in collaboration with the public and private sectors. The additional funding from WIN has allowed the network of contacts to be expanded beyond what was possible in the original project and to present findings to potential collaborators in a more accessible way. The Ecostructure output guide produced by Arup is now being disseminated to potential end-users, extending the reach of the project beyond the Ireland-Wales Cooperation Programme area. This will contribute to bridging the gap between Academia and Industry, increase awareness of the work done over the past years, as well as contribute to breaking down barriers to implementation of eco-engineering widely.

40. Up to now, EU funded projects have also played a significant role in this area in Wales. For instance, [BEACON](#), led by Aberystwyth University in partnership with Bangor University, Swansea University and University of South Wales, which supports businesses, mainly SMEs, in transforming Welsh natural resources and waste into products and by doing so provides opportunities for low carbon growth and local resilience.

41. As part of the EU-funded FLEXIS project, a consortium of strategic partners – Cardiff University, Swansea University, The University of South Wales, Neath Port Talbot Borough Council and Tata Steel UK, has worked together to successfully develop and create an energy systems research capability in Wales. Since the project began, FLEXIS have generated over £25M in research income, recruited 95 new researchers into Welsh universities and invested over £2.4M into research equipment and technology to aid current and future research. Building on the success of the original project, FLEXIS App drives green and economic growth across Wales through industrial partnerships collaborating on the commercialisation of research to decarbonise future energy supply. Key projects include:

- investigating and optimising the capture, storage and release of heat from industrial waste air streams using thermochemical storage materials;
- developing world-leading artificial intelligence and machine learning algorithms that power smart energy solutions for global application;
- developing and demonstrating a decarbonised combined heat and power system.

FLEXIS is funded by European Development Funds and is due to end in November 2022.

42. We think that there are strong grounds for further prioritising additional investment in university research and innovation in this area, particularly in the light of the lack of replacement for EU funded projects.

Q7 Specific areas – reducing poverty and inequality

– *Welsh Government policies to reduce poverty and gender inequality. Is enough support being given to those people living in relative income poverty?*

43. Higher education reduces poverty and inequality and brings life-changing opportunities for individuals and communities. Specifically in relation to gender inequality, recent work by the Institute of Fiscal Studies (IFS) suggests that attending university increases women's earnings by 26% at age 29. Similarly, a study of graduate earnings found that all students, no matter their subject choice or background, benefit from higher education with underrepresented groups having relatively high returns from going to university.

44. Welsh universities have a long track record of comparing favourably to the rest of the UK in terms of the percentage of students from under-represented groups and compare favourably to the rest of the UK by most performance indicators. In 2020/21, the HESA data (looking at full-time first degree entrants) showed that Wales took in the highest percentage entrants from state schools in the UK (92.3%) for instance. It also had the highest percentage (13.2%) from low participation neighbourhoods, 1.2 percentage points higher than the UK average (12.0%).

45. A key challenge for Wales is that it continues to have one of the lowest participation rates in higher education in the UK despite year-on-year improvements. By the June 2022 deadline, for instance, 38.1% of Welsh 18-year-olds applied to study full-time undergraduate higher education in the UK via UCAS (12,890 from an estimated population of 33,810). This compared to 44.9% for England and 52.8% in Northern Ireland (data for Scotland is not directly comparable). This means that if the application rates for Welsh students were the same as for English, we would expect there to have been another 2,290 Welsh 18-year-olds applying to study higher education (totalling 15,18) in the 2022 application cycle.

46. The problem is particularly acute for men: only 30.4% of Welsh 18-year-old men applied to study full-time undergraduate higher education, compared to 46.2% of women. This compares to 38.6% of male English 18-year-old students and 51.5% of women.

47. The increased enrolment of Welsh students in higher education, must be a priority for any strategy seeking to promote social justice and inclusion in Wales. While the factors that set Wales behind the rest of the UK in this respect are complex, an important part of the solution is investment in Welsh universities allowing increased access to opportunities that suit their needs – for instance, the continued

expansion of degree apprenticeships in Wales and flexible opportunities for lifelong learning alongside the three-year full-time undergraduate study model.

48. Welsh universities continue to contribute to wider public and social objectives. Welsh universities have become signatories of the Welsh Government's Code of Practice for Ethical employment in Supply Chains and are accredited Living Wage Foundation employers. This makes Wales the only UK nation where all universities are accredited by the Living Wage Foundation.
49. Similarly, all Welsh universities are committed to delivering civic mission activities and are partners in the Civic Mission Framework which sets out the sectors ambitions for further developing our universities' benefits for local communities. Universities Wales's Civic Mission Network encourages collaboration and sharing best practice between all Welsh universities. The Civic Mission Framework provides a toolkit for universities to develop their civic mission activity in line with the Wellbeing Goals set out in the Future Generations and Wellbeing (Wales) Act. The Network meets regularly to share updates and facilitate collaboration.

Q7 Specific areas – preventative spending

- *How/whether the approach to preventative spending is represented in resource allocations (Preventative spending = spending which focuses on preventing problems and eases future demand on services by intervening early).*

50. We have long argued that investment in higher education constitutes 'preventative spending' for many problems faced by social communities in Wales, and ultimately helps to significantly reduce demand for support services.
51. Higher education brings many wider benefits for communities and individuals.⁴ It has been linked to better general health, better mental health, and to higher life expectancy, It is associated with lower levels of crime, greater social cohesion, trust and tolerance, and more civic engagement. Higher education also brings greater social mobility, higher earnings, less exposure to unemployment and increased entrepreneurial activity.
52. A range of activities carried out by Welsh universities make a positive contribution to the well-being and prosperity of people and places in Wales and, as such, the funding to support those activities should be viewed as preventative spending. For example, research and innovation activity exploring issues such as clean, sustainable energy capture and storage can help reduce future carbon emissions. Similarly, the opportunities offered by universities for people of all ages and backgrounds to access higher level skills will help address the potential economic and societal shocks of automation and technological change.
53. The Wales Innovation Network (WIN). formed as a result of Graeme Reid's report⁵ on collaboration in research and innovation in Wales, was set up to facilitate

⁴ See for instance, BIS Research Paper No. 146 ([here](#)), October 2013.

⁵ Strength in Diversity

greater collaboration across Welsh universities while providing a single voice for Welsh universities with partners and funders in Wales and beyond. It is focussed on identifying projects that provide the best opportunities for collaboration in areas of strength and of social and economic importance to Wales. Its five key priority areas specifically include Green Future Wales and Healthy Wales, for instance.

54. 89% of Welsh research was considered internationally excellent or world leading in terms of ‘impact’⁶ in the most recent UK wide assessment exercise (‘REF 2021’), meaning it ‘effect on, change or benefit to the economy, society, culture, public policy or services, health, the environment or quality of life, beyond academia’. research scored particularly well on the impact, defined as ‘an effect on, change or benefit to the economy, society, culture, public policy or services, health, the environment or quality of life, beyond academia’.
55. Similarly, the opportunities offered by universities for people of all ages and backgrounds to access higher level skills will help address the potential economic and societal shocks of automation and technological change. Welsh universities in particular have a strong record of supporting graduate start-ups and student entrepreneurship with the highest per capita graduate start-up rate in the UK.

Q7 Specific areas – sustainability of higher education

- *The sustainability of NHS, social care, further and higher education, local government and other public services more generally. Is the Welsh Government providing adequate support to the public sector to enable it to be innovative and forward looking through things like workforce planning.*

56. As outlined throughout this response, there are a range of significant issues facing Welsh universities. Addressing these issues in good time, with a clear plan, will ensure that universities are able to continue to deliver benefits to people in places in Wales and help addressing the big challenges that Wales faces.

57. One of the most significant problems is that the declining value of the maximum fee means that it increasingly does not cover the cost of provision. Analysis by both the DfE⁷ and the OfS⁸ (albeit based on English providers) indicates that, if measured in terms of RPIX inflation, the £9k full-time undergraduate maximum fee no longer meets the full costs in any subject area. More work is being conducted in this area to confirm the extent of the issue for Wales. However, this is a position that will only get worse, and means that there is mounting pressure to rely on surplus-generating activities, primarily international fee income.

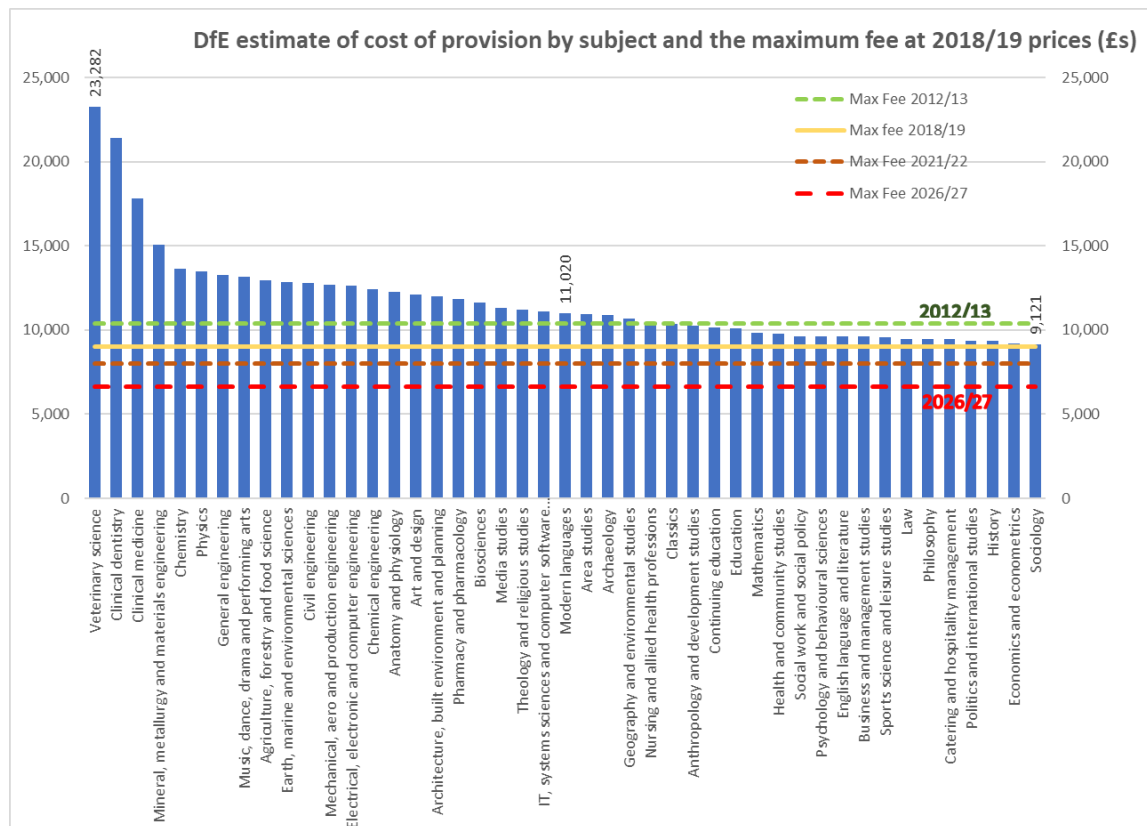
To illustrate this, the following chart sets out the DfE’s estimate of the costs of provision by subject area in 2018/19 prices, and adds lines to show the

⁶ [Results and submissions : REF 2021](#)

⁷ Department for Education, Measuring the cost of provision using Transparent Approach to Costing data, Annex A, May 2019 [here](#)

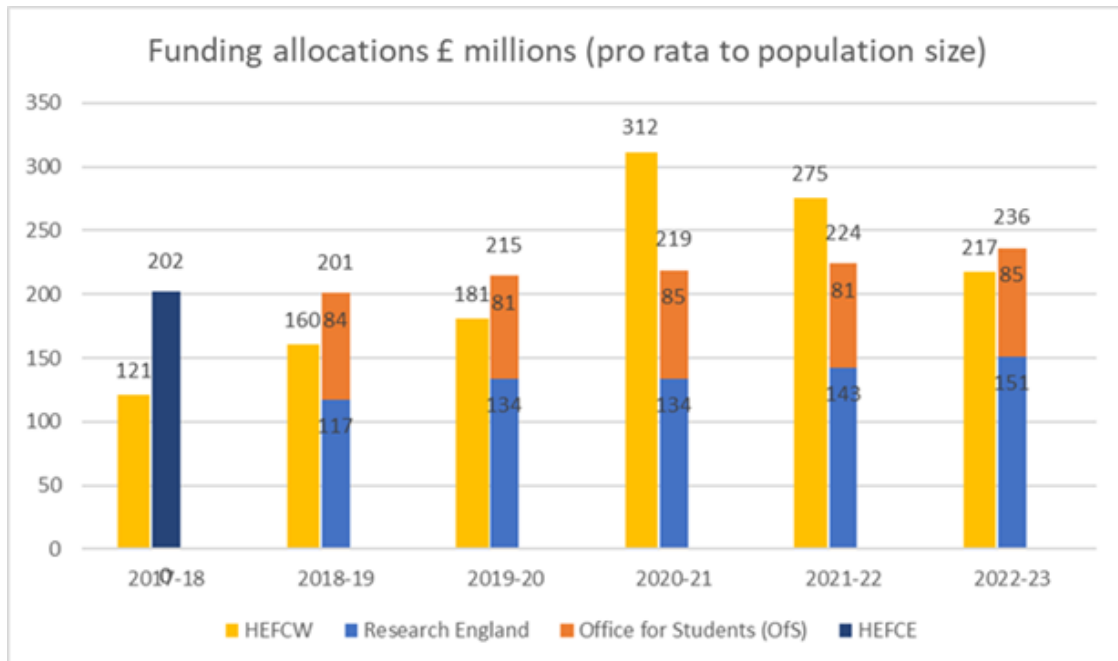
⁸ Development of the OfS’s approach to funding, Annex B, Figure B2, p.34 [here](#).

comparative decline in value of the maximum fee (also in 2018/19 prices, based on RPIX):



58. In this light, the core Welsh Government budgets for HE (based on financial years) continue to be an underpinning source of income for universities, despite making up a relatively small percentage of total income. Budgets for HE in recent years have started to increase in line with the Diamond review recommendations up to this point. However, full funding recommended by Diamond has not yet been delivered and the challenge remains to provide the funding levels needed in real terms to cover the cost of provision and ensure core university activities remain financially sustainable.

59. When we compare funding body allocations pro-rata to population size, it is clear that implementation of Diamond Review recommendations has meant that, after a significant period of comparative under-funding, funding for Welsh universities has broadly caught up. Welsh universities received significantly more one-off funding for student support during COVID than their English counterparts which is distorting the comparison of baseline funding for those years (including £127m additional COVID-19 related funding for financial year 2020/21, allocated across different academic years). However, the latest HEFCW allocations reflect a return to core funding and it appears that Wales is set to lag behind again.



60. Investment in research at universities plays a particularly important role in Wales: Welsh HE accounted for 41% of Wales’s total investment in R&D in 2019. Total R&D expenditure by Welsh HEIs in 2019 accounted for 3.6% of UK HE R&D expenditure. In terms of its research base, Wales recorded 3.9% of the UK’s research staff submitted in the recent REF 2021 and 3.5% of the staff were rated as 4*, i.e. Wales continues to output a significant volume of world-class research. However, the volume of research/staff base remains almost a third lower than an expected proportion based on Wales’s population size (4.7%).

61. Historically, core funding allocations for research (QR and PGR) in Wales have lagged behind other parts of the UK, pro-rata to population. It caught up with the rest of the UK in 2021/22, due to the additional one-off funding. HEFCW’s allocation for research and innovation (including for the Wales Innovation Network (WIN) and Research Wales Innovation Funding (RWIF)) of £106m for 2022/23, represented an increase on previous core funding levels. However, the most recent allocation still does not match the levels of investment in research and innovation in the rest of the UK, which have continued to increase steadily. Total Research England funding for 2022/23 was £151m equivalent in Barnett consequentials and the Scottish Funding Council allocations for research and innovation was £173m equivalent.

62. The lack of a replacement funding for EU income, including structural funds and Horizon funding, is a further major issue for universities. University-led projects approved for EU Structural fund spend from 2014 to the present included £352m in EU funds awarded for projects worth a total of £587m. This does not include projects where universities are junior partners (including Welsh Government projects). The UK’s ongoing uncertain future relationship with Horizon Europe is adding to this pressure.

63. These projects, specifically designed to help level up the playing field for Wales and address regional disparity, include many projects that have had significant benefits for Wales and its communities. Examples of university-led projects previously supported by Structural and Investment funding, (to name only a few) include:

- [FLEXIS](#), led by Cardiff University, Swansea University and the University of South Wales, brings together expertise from across these universities to facilitate an affordable, sustainable, and socially acceptable transition to a low carbon future.
- [KESS2](#), led by Bangor University in partnership with all universities in Wales, which aims to increase the research capacity of SMEs across Wales by linking partners with a PhD or research master's project.
- [ASTUTE 2020](#), led by Swansea University in partnership with Cardiff University, Aberystwyth University and UWTSD, which provides resources, facilities and advice to the Welsh manufacturing sector to stimulate ideas and embed sustainable technologies.

UNIVERSITY RESEARCH FUNDING ENVIRONMENT

Welsh universities are funded to undertake research and innovation activity by the dual support system which consists of **core funding for research** from Welsh Government distributed via HEFCW. Primarily this is made up of quality-related research funding, which provides the foundations on which other projects can be built, and RWIF funding which supports innovation and knowledge exchange activities. There are equivalents to these funding streams in every UK nation. Notably, Wales did not have RWIF funding (or equivalent) between 2013 and 2019.

UKRI and its constituent councils also provide **competitive funding for universities on a UK-wide basis**. QR funding is essential in enabling Welsh universities to compete for this funding.

Notably, UKRI only funds 80% of the full economic cost of the projects it funds meaning universities require QR funding to provide the match funding.

The below sets out what the Wales-equivalent levels of funding are in England, Wales and Scotland. These funds determine the extent to which universities in each nation are able to complete for additional funding.

When you adjust government-funding for university research and innovation across the UK by population to enable comparisons, Wales has lower investment in QR and knowledge exchange than Scotland and England.

Funding Type	Research England	HEFCW	Scottish Funding Council
QR	£ 110.60	£ 90.60	£ 164.50
Other research funding	£ 8.20	£ 0.30	-
Knowledge exchange funding	£ 18.40	£ 15.00	£ 8.90
Total	£ 137.20	£ 105.90	£ 173.40

It is also worth noting that the balance between higher education research and innovation and business research and innovation in Wales is not an outlier when you

consider the balance in Scotland and in many regions of the UK⁹. Understanding where our research and innovation assets are located is key to any approach that seeks to secure, sustain and build upon our existing research and innovation success.

Nation	Government & UKRI ¹	Higher Education ²	Business ³	Private Non-Profit ⁴
England	7%	22%	69%	2%
Wales	3%	41%	56%	1%
Scotland	7%	41%	51%	2%
Northern Ireland	3%	22%	75%	0%

64. A key issue for the UK HE system as a whole is that this leaves Welsh universities ever more reliant on international fee income to cross-subsidise its other activities, including expensive subjects and research activity in particular.

65. Recruitment remains highly volatile and difficult to plan for (which in itself has financial consequences), and post-pandemic and post-Brexit recruitment patterns are yet to fully emerge.

66. In 2020/21, Wales enrolled 5.5% of students in the UK – 145,170 full person equivalents – significantly above the numbers expected for its population size (4.7%). Its market share of non-EU (3.6%) and EU (3.7%), however, were low in comparison.

Q7 Specific areas – support for children and young people affected by the pandemic

- *Support for children and young people whose education, development, and mental health and well-being have been affected by the pandemic. Is there enough infrastructure investment targeted at young people?*

67. The cost of living crisis increases the financial pressures faced by students, with an increased need for support and hardship funding. In recognition of this, Welsh universities have variously put in place significant additional measures to alleviate financial hardship for students in 2022/23. This has included increasing hardship

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<https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/researchanddevelopmentexpenditure/datasets/ukgrossdomesticexpenditureonresearchanddevelopmentregionaltables>

funding and widening eligibility, new targeted bursaries to address cost of living – and increased staffing to help promote and process applications quickly.

68. Examples of other targeted initiatives include: provision of free food for those who need it (e.g. through food stations, and free breakfast items), provision of information and access to training on managing finances (e.g. access to the Academy of Money Open Learn course developed by MoneySavingExpert Martin Lewis and the Open University, and ‘Manage your Cash’ workshops) and providing ‘shopping bags’ of useful items to help students negotiate the winter months and keep costs down. Student support services for health and welfare more generally are being increased. Universities have also reported that they have sought to avoid or mitigate increased catering and accommodation costs for students as far as possible.
69. Supporting student mental health and well-being is a key priority for Welsh universities. Universities Wales recently set out its key comments and recommendations in evidence to the Senedd's Children, Young People and Education committee on student mental health support in higher education on 6 October.
70. Key comments and recommendations focused on the need for data sharing between health and education providers, and support for transitions from further to higher education, from CAMHS to adult mental health services, and for students living away from home during term-time to access GPs and NHS services – drawing on the policy recommendations developed in partnership with NUS Wales, AMOSSHE and Colleges Wales published earlier this year. Universities Wales team will submit a written response to the Children, Young People and Education Committee’s consultation on student mental health support in higher education.

Q7 Specific areas – Investment in basic public sector infrastructure and support for third sector organisations

- *Whether there has been adequate investment from the Welsh Government in basic public sector infrastructure.*
 - *Is support for third sector organisations, which face increased demand for services as a consequence of the cost of living crisis and the pandemic, sufficient?*
71. In line with our comments elsewhere, we believe that investment in universities is critical for supporting the Welsh economy and its communities and ensuring their resilience. We anticipate an increased demand and need for universities services in the coming months and years ahead as we enter the cost of living crisis. There is a strong case for significant further investment in a number of key areas, as noted in the next section.

Q7 Specific areas – Key opportunities for investment

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

72. In light of the above comments, we would welcome the Welsh Government in particular considering the following key areas for potential investment to enable universities to maximise their contribution to economic and social recovery in Wales:

- Commitment to plan for fully implementing the Diamond Review recommendations in real terms to deliver a sustainable funding model for higher education that tackles the severe real-term reduction in income and impact of significantly rising costs of provision.
- Significantly increase investment in research and innovation including providing competitive levels of QR and innovation funding to enable us to secure additional investment.
- Further support for expansion of degree apprenticeship programmes in Wales and bespoke funding support to enable universities to deliver lifelong learning.
- Bridging funding to help with the immediate explosion of energy, pensions and cost of living.
- Provide additional funds that universities can use to direct hardship and welfare support at students and ease costs of accommodation and catering for them.
- In particular, consider additional support for universities to maintain the talent and infrastructure currently being lost or at risk of being lost as a lack of replacement for EU funding sources.

Universities Wales

November 2022