

Economy Committee inquiry into research and development

Briefing

August 2024

1. Background and context

In November 2023, the Senedd's Economy, Trade and Rural Affairs Committee undertook a one-day inquiry into research and development (R&D) in Wales¹.

Universities Wales provided [written evidence](#), as well as [oral evidence](#) given by Amanda Wilkinson (Director of Universities Wales), Dr Lewis Dean (Head of the Wales Innovation Network) and Professor Roger Whitaker (PVC Research, Innovation and Enterprise at Cardiff University, on behalf of the Universities Wales Research and Innovation Network).

In May 2024, the Committee published a [report](#) outlining its findings, summarising its conclusions and recommendations.

2. What are the key issues and opportunities for universities?

From biosciences to advanced manufacturing, Wales is home to cutting-edge research.

In the latest [Research Excellence Framework](#) (REF 2021), 89% of Welsh research was judged to be internationally excellent or world-leading for impact – or in other words, the way our research benefits the people and places of Wales and beyond. A range of case studies submitted to the REF can be found on our website [here](#).

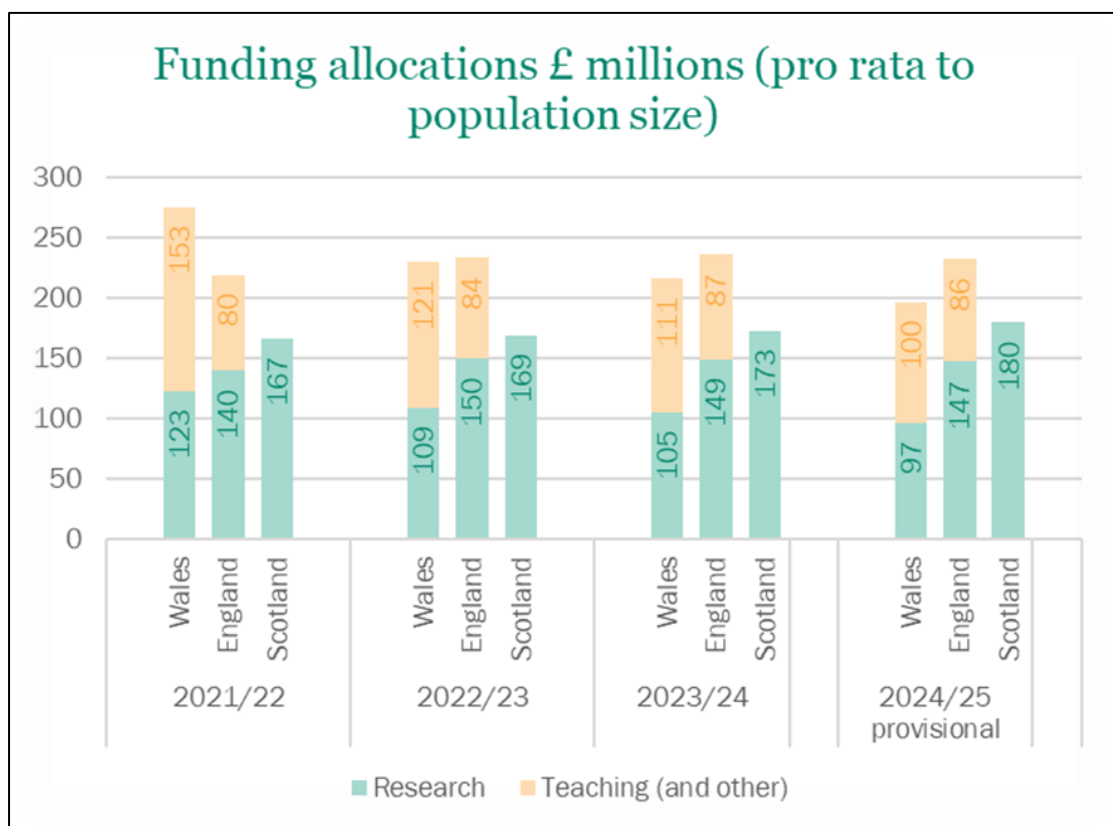
Arguably the biggest challenge facing the Welsh research sector is that **funding is not keeping pace with the rest of the UK**. Under the dual funding model,

¹ Research and Development, or 'R&D' tends to refer to pure research activity and the development of new technologies. In terms of university research, we tend to refer to 'R&I' – research and innovation – which encapsulates research activity as well as the transformation of that research into new ideas, products and services, i.e. innovation. The two are very closely linked, as explained in this briefing.

universities receive core funding from Welsh Government (via HEFCW – soon to be Medr) and submit bids to draw in further investment from external sources such as UKRI and Horizon Europe. Core funding is what enables universities to bid for competitive funds.

Core funding is largely made up of **quality-related (QR) funding**. This is unhypothecated, which means universities are able to choose how to spend it to deliver their own strategic aims. Universities tend to spend QR on the staff, infrastructure and equipment required to sustain their research capabilities, and this in turn facilitates the ability to submit bids for further funding. Therefore, there is a direct correlation between QR funding and external funding. QR also plugs the gap between the full cost of delivery and the funding provided by research grants.

Despite its vital underpinning function, **QR has been falling in real terms** for a number of years. The following chart shows the last two years' allocations for research and innovation compared to the allocations in England and Scotland scaled to their relative population size for comparison. For 2023/24, this indicates that in Wales the funding allocations for research and innovation (£105m) were £44m lower than in England (£149m equivalent) and £68m lower than in Scotland (£173m equivalent).



Innovation funding

As well as core funding, Welsh universities receive funding from HEFCW which is specifically ring-fenced for innovation, via the Research Wales Innovation Fund (RWIF).

There was no dedicated innovation funding, following the withdrawal of 'Innovation and Engagement Funding' by HEFCW in 2013/14, until RWIF was introduced in 2020.

In 2023/24, the RWIF allocation was £15m in total, ranging from grants of £500,000 to £3m. Institutions submit RWIF strategies to HEFCW, who allocates funding according to a formula that considers various metrics including spin-outs and graduate start-up outcomes, using data from the Higher Education Business and Community Interaction Survey operated by HESA.

Innovation funding is crucial to enable universities to engage with businesses and unlock Wales' potential in developing new products and services.

European funding

Before our withdrawal from the European Union, Welsh universities delivered significant research and innovation activity, including substantial business engagement, via European Structural and Investment Funds (ESIF).

Universities were the second largest recipients of EU Structural Funds in Wales in the most recent programme, being awarded over £350m as lead partners since 2014.

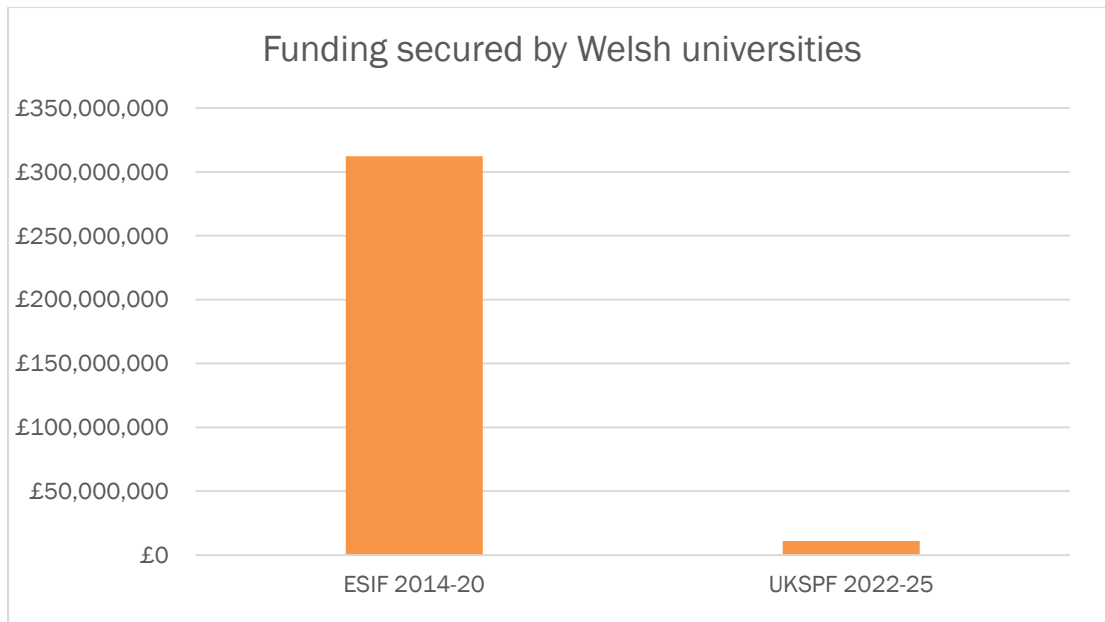
The loss of this funding created a cliff-edge for approximately 60 research projects across Wales, and around 1,000 jobs were put at risk.

Replacement EU funding

The UK Government introduced the UK Shared Prosperity Fund (UKSPF) as replacement funding for the loss of ESIF.

However, the UKSPF differs significantly from ESIF. The way it is distributed makes it difficult to collaborate on a regional or national basis. The fund has not been targeted at areas of real need or provided universities with the same opportunities to deliver. And the short-term nature of the fund has meant that the long-term planning previously enabled was not possible.

Universities have had some success in accessing funding via the UKSPF, but it is substantially lower than the level of funding secured via ESIF.



There is uncertainty on what will happen to the UKSPF beyond March 2025. It was positive to see UK Labour commit in their manifesto to restoring decision-making on replacement funds. The coming months will be a crucial period of determining what the new funding arrangements look like and how they operate.

Business interaction

By working with business, universities provide academic research and innovation capacity to develop new projects, services and products. These are often part-funded by Innovate UK and Welsh Government. Wales has also historically used European funding to enable business interaction.

Universities can serve as regional drivers for innovation activity, including through catapults such as the [Compound Semiconductor Applications catapult](#) based in South East Wales.

Universities also provide facilities and incubation space for local businesses through cluster models like [AberInnovation](#) and [MSparc](#), as well as working with city and growth deals to secure investment for research projects. Spin-outs and graduate start-ups also benefit from support from universities via facilities, knowledge and mentoring.

It is important to note that funding for basic research is an essential component of the innovation ecosystem. As noted in Welsh Government’s report on [supporting Welsh R&I post-Brexit](#), public funding ‘crowds-in’ investment from the private sector in R&D.

The Welsh business sector is [primarily made up of Small and Medium-Sized Enterprises](#) (SMEs), which can struggle to engage with universities to access the research and innovation capabilities they could offer.

The [Wales Innovation Network](#) (WIN) was established to facilitate and encourage collaboration between universities and wider stakeholders, and is well placed to provide a [point of contact within universities](#) for businesses looking to collaborate.

3. What were the report's conclusions?

The report identified six conclusions from the inquiry. These included identifying that **QR funding has been falling real-terms**, putting us at a competitive disadvantage, and the **importance of a critical mass** in expertise in securing funding. The report quotes from Universities Wales' evidence:

'Universities Wales's supplementary evidence, sent after the meeting, said its key recommendation to Welsh Government was to "reiterate that core funding for research and innovation is vital in enabling Welsh universities to increase the capture of research and innovation funding.'²

The Committee also focused on **the interface between universities and businesses**, concluding that government should address barriers to business collaboration including challenges related to match funding for R&D. The report quotes Dr Lewis Dean, Head of the Wales Innovation Network:

'a range of grant programmes will ask for match funding from institutions, which is a further financial investment by the universities. Without that ability to invest in that match funding, universities will have to make the decisions about which grants they're able to apply for.'³

The report also refers to an [inquiry undertaken by its predecessor Committee in the fifth Senedd, the Economy, Infrastructure and Skills Committee](#). The report published in 2019 picks up on similar themes including the challenging funding environment, and specifically supported the introduction of RWIF to plug the gap in innovation funding. The 2024 report reiterates the **importance of RWIF**, and quotes Harriet Barnes, of HEFCW:

'[RWIF is crucial for] funding universities to take the role of being anchors in the innovation community local to them, providing facilities, innovation hubs, collaboration spaces and so on.'⁴

4. What did the Committee recommend?

The Committee has made four recommendations.

1. The Welsh Government should carry out, or commission, a **review into the level of Quality Related funding provided to Welsh institutions**, to

² [Research and Development \(senedd.wales\)](#) para 57, p20

³ [Research and Development \(senedd.wales\)](#) para 55, p19-20

⁴ [Research and Development \(senedd.wales\)](#) para 88, p29

determine the amount required for them to best carry out research and compete for external funding. The review should take the Diamond and Reid reviews into account and consider equivalent funding levels in England, Scotland and Northern Ireland.

2. The Welsh Government should undertake more analysis of the **spread of R&D funding across Wales** in order to fully understand the national picture, and look at fostering partnerships or other specific funding initiatives outside the areas where successful innovation clusters already exist.
3. The Welsh Government should work with partners on a communications plan to highlight the impacts and benefits of publicly-funded research and innovation to a wider range of audiences in Wales, to **raise awareness of how business and academia are collaborating** on major innovation challenges and increase engagement and participation in R&D, starting with schools but reaching a range of audiences creatively.
4. The Welsh Government should look at what **further support can be provided to SMEs**: including to help them with the UKRI bidding application process, address issues relating to procurement and match funding; and to clearly signpost all the various funding streams and the help available to access them.

5. Next steps

Welsh Government is due to respond to the report, and comment on the recommendations. Government can either accept, accept in principle, or reject the recommendations.

The Commission on Tertiary Education and Research (CTER) comes into force fully from August 2024, and it will be consulting on its strategic plan. The Committee has suggested that CTER consider its conclusions and recommendations. In engaging with CTER during its consultation on its strategic plan, Universities Wales will highlight the important points raised by the Committee, particularly in relation to how R&I is funded.