

Medr

Y Comisiwn Addysg Drydyddol ac Ymchwil
Commission for Tertiary Education and Research

Children, Young People and Education Committee

Written submission on the financial
position of the Higher Education sector
in Wales

May 2025



Noddir gan
Lywodraeth Cymru
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Introduction

This document provides an update on the financial position of the higher education sector in Wales to inform members ahead of our briefing session at the Children, Young People and Education Committee on 21 May 2025.

This briefing sets out:

- our assessment of the financial position of the higher education sector in Wales
- our role as a regulator for the higher education sector in Wales

About Us

Medr (the Commission for Tertiary Education and Research) is an arm's-length body of the Welsh Government, established by the Tertiary Education and Research (Wales) Act 2022 to fund and regulate the tertiary education and research sector in Wales.

This includes:

- further education
- higher education including research and innovation
- adult community learning and work-based education
- apprenticeships
- local authority maintained school sixth-forms

On 12 March 2025, we published our [Strategic Plan for 2025-2030](#) which outlines our vision for the tertiary education and research sector in Wales, including how we intend to operate as a proportionate, risk-based regulator.

Our assessment of the financial position of the higher education sector in Wales

Overview

1. The higher education sector in Wales, in common with the rest of the UK, is currently operating in an exceedingly challenging financial environment.
2. Recent well-publicised downturns in international recruitment, compounded by the impact of high inflation, have led providers to undertake detailed reviews of their operating models and core strategic priorities. A significant number of UK institutions¹ have announced cost-cutting measures including voluntary severance schemes (VSS), course closures and other restructuring activities.
3. Proposals for restructuring, including university-wide VSS have been announced by Aberystwyth, Bangor, Cardiff, Cardiff Metropolitan, Swansea, and the University of South Wales (USW). A limited scheme has also been announced by University of Wales: Trinity Saint David. All institutions report that they are engaging regularly with their trade unions to ensure that the rationale for the difficult decisions required is openly shared and as well understood as possible. Medr is also meeting regularly with national trade union representatives. They report that whilst there is constructive dialogue, based on the principles of social partnership, in many institutions, this is not a universal position. They report that individual branches could be in dispute and ballot members on potential industrial action should institutions plan to make compulsory redundancies in response to the financial challenges they face.
4. We do not believe that any institution is at imminent risk of failure in the short term (i.e. in the next twelve months) providing forecast efficiencies are successfully implemented. However, a number of institutions have significant transformation activities to implement in order to secure their longer-term financial sustainability. We regularly engage with all institutions to understand their financial forecasts; transformation plans; and progress on delivering them.
5. The sections below summarise the factors affecting the financial position of the sector. We will publish our first report on this later in 2025.

¹ [UCU University Restructuring Tracker](#)

Income and Expenditure

6. On 13 May, we published a [statistical release on the finances of higher education institutions, September 2023 to August 2024](#) which provided an overview of the income and expenditure of the sector.

Income

The total income of Welsh higher education institutions was £1.98bn in 2023/24, the same as the previous year.

Income generated through tuition fees and education contracts was £1.11bn, accounting for 56% of income. This is an increase of 5% compared to 2022/23.

Income from funding body grants was £276m, accounting for 14% of income. This is a decrease of 15% compared to 2022/23.

Income from research grants and contracts was £239m, accounting for 12% of income. This is a decrease of 12% compared to 2022/23.

Expenditure

The total underlying expenditure of Welsh higher education institutions in 2023/24 was £2.04bn, 4% higher than in 2022/23 (£1.96bn).

Staff costs were £1.11bn, a 6% increase compared to 2022/23 (£1.05bn).

7. While the financial performance of individual institutions is mixed, the underlying operating position of Welsh higher education institutions in 2023/24 was a deficit of £61m. This is in comparison to a £21m surplus in 2022/23. The underlying position including restructuring costs would have been a deficit of £77m for 2023/24 (2022/23 - £22m surplus). The overall decline is mainly attributable to student recruitment shortfalls and inflationary pressures outstripping income growth.
8. As outlined in the statistical release, universities generate most of their income from tuition fees and education contracts, funding body grants and research grants and contracts. They also receive income from other sources such as facilities and accommodation.

Financial Pressures

9. There are ongoing inflationary pressures on all pay and non-pay costs. Pay costs represent more than 50% of sector expenditure, so managing pay and associated pension inflation is key.
10. The cost of the recent 2.5% annual pay settlement for higher education (agreed on a UK-wide basis) is broadly estimated at a headline £22m, although the actual settlement is more nuanced over the pay spine. Around half of institutions in Wales have indicated that they are taking the step of deferring the settlement on the basis that this may reduce cost savings required.
11. Employers National Insurance increases are estimated to cost the sector £20m per annum. Providers that are Higher Education Corporations are also required to maintain membership of the Teachers' Pension Scheme (TPS). Employer contribution rises from this scheme in 2024 are estimated to cost the sector £6m per annum.
12. The largest non-pay cost for the sector is its estate, which is currently under pressure in a number of ways:
 - providers are heavily exposed to the current high energy costs.
 - cash conservation policies, broadly in place since the pandemic, have meant that internally funded capital projects have largely been on hold. This increases unplanned maintenance costs, backlog maintenance commitments, and over time reduces the attractiveness of the estate to potential students.
 - providers have published net zero plans in line with Welsh Government priorities. These are only being funded where external funds are available, and targets are therefore at risk. Not all providers are able to access funding in the form of long-term loans due to their current borrowing levels and attached covenants which may restrict additional borrowing.
 - large externally funded projects are subject to inflationary funding gaps which need to be addressed by either scaling down the project or sourcing additional funding.
 - increasing cyber security risks and the need to introduce ongoing efficiencies are highlighting a pressing need for significant digital transformation investment.
13. Both staff and infrastructure are important for the quality of the student experience. However, neither can be reduced quickly without planning and consultation with staff and stakeholders, adding to the challenge of forecasting and making the sector vulnerable to short-term deficits following income shortfalls.

14. Transformation requires significant investment, for example to fund severance costs and to improve digital infrastructure to drive efficiencies. This puts pressure on cash in the short term and institutions are therefore forecasting reductions in cash balances to support the planned managed deficits. This has led to further pressure on bank covenant compliance for providers who have borrowings with covenants attached. Erosion of cash balances also reduces the headroom available to institutions to strategically respond to future unplanned adverse events and to take advantage of investment opportunities.
15. Banks and lenders are still generally supportive though the cost of borrowing increases with heightened risk. Any financial shocks or unexpected issues at a UK provider could change bank attitudes about the borrowing risks. Medr's regulatory role and financial monitoring engagement aims to increase lenders' confidence in Welsh providers' financial risk management.

Tuition fees

16. From 2012 until 2024, the maximum tuition fee level for full-time home (UK-domiciled) undergraduate students in Wales was £9,000. In 2024, this increased to £9,250 and to £9,535 for courses beginning on or after 1 August 2025. Once fully implemented, this will generate an estimated £36m additional income per annum compared to pre-2024 levels.
17. Part-time undergraduate fees are not regulated. Welsh-domiciled students studying in Wales can borrow up to £2,625 to pay their tuition fees compared to up to £7,145 for home students studying in England. Consequently, fees charged at Welsh providers for part-time undergraduates tend to be lower than those charged in England, though there is no evidence to suggest that the cost of provision is different. Medr provides funding for part-time undergraduate study intended to contribute to the part-time funding gap.

International students

18. As inflation has eroded the value of tuition fees and teaching costs have come under pressure, more institutions have looked to diversify income into new, international markets.
19. International student tuition fees are uncapped. These have traditionally 'cross-subsidised' other institutional priorities, such as the full costs of research, which are

not met by public grants, and contributed to other costs incurred beyond income from public funding. In recent years, institutions have entered new international markets to diversify their student recruitment and enable them to meet rising inflationary costs. More recently, income generated from international student fees has been used to subsidise teaching costs for UK-domiciled students where costs are increasing above the tuition fee.

20. Growth in international tuition fee income was positive for the short-term financial stability of the sector, however it is a more unpredictable source of income and therefore represents an increase in risk for institutions. The main financial risks are:
 - The majority of international students in the UK are postgraduates (mainly studying and paying fees for one year). This continues a trend away from the more stable three-year income for undergraduate studies, making forecasting less predictable and increasing the challenge for strategic planning.
 - International income is more vulnerable to political changes, both in the UK and in the domiciled countries of the students, as evidenced recently by the recruitment impact of the economic situation in Nigeria and dependants visa changes in the UK.
 - The international market is increasingly competitive which risks driving down fees.
 - The international market has direct and indirect costs such as agent fees and student support which erode the contribution of this income stream.
21. Six institutions in Wales have a high exposure to any issues with international recruitment, with the highest representing 44% of total tuition fee income in 2023/24. For context, HESA data² for 2023/24 indicates that 67 providers in the UK had a higher exposure, with 54 institutions exceeding 50% and the highest at 96%.
22. In line with the wider UK sector, the international post-graduate autumn 2024 intake was below 2023 levels. The spring intake gives no indication or expectation of significant upturn in international recruitment in the short to medium term, with possibility of further downturn.
23. The UK Government White Paper on immigration published earlier this month is leading to significant concern in the sector, with any further disruption to this income stream expected to lead to further requirements for cost saving.³ Institutions are highlighting that further restrictions would likely start to impact core

² [HE Finance Data | HESA](#) – 18 providers not yet included.

³ [Universities UK responds to Immigration White Paper](#)

deliverables.

24. The international recruitment downturn has also affected home student recruitment. There is evidence that higher-tariff competitor institutions across the UK have increased their admissions of home students to mitigate the international recruitment decline, creating more uncertainty for lower-tariff institutions.⁴

Research funding

25. Public funding to UK universities for research and innovation comes through the [dual support system](#), which is made up of a combination of strategic institutional funding and project-specific competitive grants. Project-specific grants do not cover the full costs of the research activity. Typically, funding is at 80% of Full Economic Costs based on the bid submitted, though the level is lower for grants from charities, and grants do not allow for inflationary increases, so in practice universities typically only recover 69% of the costs leading to a UK-wide sustainability gap of over £3bn for AY22/23.⁵ Universities may use some strategic institutional funding to meet the remaining costs, but the main source is income generated from international student fees.
26. UK association to the Horizon Europe research and innovation funding programme has been confirmed. This does not address the funding gaps created by the loss of EU structural funds (ESF), which was the source of around £370m investment into research and innovation since 2014. [Universities Wales](#) estimated that the loss of access to ESF directly impacted 60 projects and placed 1,000 jobs at risk. The UK Shared Prosperity Fund has been at a lower level and has not offered the same opportunities for long term investment. The landscape of place-based funding has become more fragmented, requiring universities to be more agile to successfully access these funds and making it difficult to sustain a long-term strategic approach.

Our Role as a Regulator for the Higher Education sector in Wales

27. We inherited regulatory duties from the Higher Education Funding Council for Wales (HEFCW) on 1 August 2024. These relate to:

⁴ [UCAS End of Cycle provider data, 2024 | Wonkhe | Higher-tariff universities admit 13% more UK school-leavers than 2023, figures show | Universities | The Guardian](#)

⁵ [Research financial sustainability: issues paper – UKRI](#)

- monitoring regulated institutions' compliance with fee and access plans. These plans outline how they intend to widen access to higher education, increase participation, improve retention and reduce attainment gaps for students from under-represented groups.
 - assessing the quality of education.
 - monitoring institutions' compliance with the Financial Management Code.
 - providing information and advice to Welsh Ministers.
28. With regulatory oversight of eight higher education institutions⁶, we work closely with each institution to develop an understanding of their individual circumstances, challenges and strategies, fostering open, transparent dialogue and operating on a “no surprises” basis. We undertake extensive and regular engagement with key members of their senior leadership teams and, where appropriate, their governing bodies. This includes both collective and individual meetings, regular and ad hoc, in line with our risk-based approach. We also work closely with Universities Wales, the higher education sector representative body.
29. Each institution provides us with data and information that is commercially sensitive and confidential. This is key to informing our understanding and greatly enhances the rigour and timeliness of our assurance processes. Maintaining this confidentiality is essential to ensuring ongoing open communication between the sector and us as the regulator.
30. We assess the performance of each institution across several areas:
- strategic direction – we engage with each institution's senior leadership team to improve our understanding of their strategies and future plans.
 - financial health – we engage regularly with finance directors to enhance the understanding gained from data returns such as audited financial statements, financial forecasts, student recruitment updates and TRAC (Transparent Approach to Costing) returns. We issue and monitor borrowing thresholds for each institution.
 - governance and management – working with the clerks and secretaries to institutions' governing bodies, internal auditors and senior leadership, we improve our understanding of how well their governance and leadership structures operate.

⁶ The Open University is a UK wide institution regulated by the Office for Students. Medr works closely with the Open University in Wales to maintain oversight without unnecessary duplication of regulatory burden.

- students and quality – we improve our understanding about the quality of provision, the learner voice and student satisfaction through in-depth conversations with institutions’ leaders and the student body about the outcomes of quality reviews, National Student Survey results and data returns.
- research and knowledge transfer – we engage with each institutions’ leadership and with key academic and professional services staff to enhance the understanding gained from the Research Excellence Framework and data returns.
- estates – we engage with finance and estates directors to enhance the understanding gained from data returns, such as the Estates Management Record and financial forecasts, about capital plans and estates issues.

University Governance

31. All universities in Wales are autonomous charities, registered with the Charity Commission. Charity rules require that university governing bodies, as charity trustees, must make decisions based on what is right for the university’s mission, thinking about the longer-term implications. In the current environment, this means that university governing bodies must weigh any immediate concerns about loss of jobs or areas of academic provision against the need to ensure the long-term sustainability of the institution and its overall mission. Consequently, universities may have no choice but to undertake significant cost-reduction, including cuts to staff numbers, if they are to secure their long-term future. While any restructuring may result in the loss of areas of academic provision, this is a matter for each university’s governing body.

32. Medr’s legal powers respect academic freedom and institutional autonomy and do not permit us to interfere with the detailed running of universities, for example, in areas such as staffing or whether areas of provision or course content must, or must not, be delivered. Similarly, Welsh Ministers do not have the power to place terms and conditions on Medr to require us to make such interventions. Our regulatory role in this context is therefore to monitor the financial sustainability of our universities and, where restructuring is taking place, to gain assurance that due process is followed. In doing this, we will assist where we can, using our funding powers, highlighting risks and concerns to Welsh Ministers.

New Regulatory Approach

33. We are developing a new regulatory system, working closely with the tertiary education sector and the Welsh Government. The Tertiary Education and

Research (Wales) Act 2022 provides the legislative framework for this new system.

34. Our first consultation on the new regulatory system opened on 15 May and will close on 18 July. The consultation sets out our proposals for regulating in a way that is transparent, proportionate and risk based. It also seeks views on the regulatory framework – including some conditions of regulation and funding – powers of intervention and the quality framework.
35. The system will be underpinned by a higher education register, which will list all approved tertiary education institutions in Wales that deliver higher education, with associated conditions of registration.
36. These conditions of registration will cover a range of requirements in relation to financial sustainability, governance and management, quality, equality of opportunity, staff and student welfare, the Learner Engagement Code (which is intended to ensure learners' interests are represented) regard to advice and guidance and charitable status, among others. Some of these conditions will also be reflected in equivalent terms and conditions of our funding for other tertiary education and training providers, which are being developed at the same time. The register will be a regulatory “gateway” for the automatic designation of higher education courses for Welsh Government student support (that is, the ability for students to access tuition fee loans and other support funding).
37. We will monitor how registered providers comply with these conditions of registration using a proportionate and risk-based approach. This will minimise the burden on providers. When we identify a breach of compliance, there will be a range of intervention measures which we could use. These will be set out in our Statement of Intervention.
38. Most conditions of registration will apply from the time of an institution's registration, from the start of the 2026/27 academic year, with full implementation of the registration system being in place from 2027/28. The new system will build on the existing close working relationships and mutual trust.

Medr, May 2025