

Welsh Affairs Committee: Universities Wales briefing

13 June 2025

Universities Wales welcomes the opportunity to provide advance briefing to the Welsh Affairs Committee ahead of its one-day session on Universities in Wales on 25 June. The session is expected to examine the financial and other challenges facing the higher education sector in Wales. A particular focus will be given to the role of the UK Government in supporting universities, with immigration policy and research funding among aspects of non-devolved policy impacting HE. This briefing is structured accordingly.

About Universities Wales

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.

Key Messages

Financial challenges

- **Welsh universities are facing some of the most pressing, difficult financial circumstances in recent memory.** Costs are rising faster than income and international student numbers are falling. The increase to the **National Insurance** introduced in autumn 2024 is estimated to have cost the sector a further £20m this year. **Institutions are having to make difficult decisions to manage their budgets.**
- **International students** enrich Welsh campuses and communities, supporting a vibrant learning environment. The financial benefits gained from international recruitment are also substantial, cross subsidising the teaching of domestic students and research and innovation. **Any further changes to immigration policy, such as those outlined in the government's recent immigration white paper, are likely to further challenge the financial position of universities.**
- **Welsh universities carry out world-leading research and innovation** that tackles global challenges and benefits people, business and public services, both in Wales and across the world. **Welsh universities continue to be underfunded for R&I**, but there is significant potential to drive economic growth in Wales **through better**

investment, support for commercialisation and strategic deployment of regional investment funding.

European collaboration

- **Universities in Wales welcomed the EU-UK deal.** Universities in Wales continue to have strong relationships with our European partners. It is vitally important that the UK Government and the EU continue to work collaboratively together. Measures that enable greater collaboration with our European partners across **research and innovation** and **academic and student exchange** will be warmly welcomed by universities, both here in Wales and in the EU.

Participation

- Wales is also experiencing some of the **most alarming post-16 participation challenges we've seen in many years**. There is clear evidence that fewer people in Wales are engaging with education or training beyond compulsory education. **The gap in 18-year-old participation between Wales and the UK as a whole is at its widest in recent history**. Left unaddressed, this will have significant economic consequences for Wales into the future.

Outlook

- **Welsh universities are facing some of the most pressing, difficult financial circumstances in recent memory.** Costs are rising faster than income and international student numbers are falling following changes to the student visa rule. Institutions are having to make difficult decisions to manage their budgets.
- Recently published HESA data showed an underlying deficit for the sector in Wales of around ~£77m at the end of July 2024. This is *prior to* more recent pressures such as the significant drop in international recruitment (~£80m) and National Insurance increase (~£20m), **indicating a very challenging position into 2024-2025**.
- Universities Wales welcomed the rise in the tuition fee limit announced by the Welsh Government in December (£21.9m). However, as is shown above, any benefit which may have been felt has been eroded by more recent challenges.
- **The dramatic fall in international recruitment** seen in September 2024 alone is estimated to have **cost the sector in Wales over £80m this year**. It is important to realise that any further changes to immigration policy, such as those outlined in the **UK government's immigration white paper**, will exacerbate an already precarious financial position.

- **Welsh universities continue to be significantly underfunded for research and innovation.** Pro-rata to population size, in 2024-25, the funding allocations made by HEFCW (now Medr) for research and innovation in Wales were £57m lower than those made by Research England for England and £86m lower than in Scotland.
- **The cliff-edge of funding caused by the loss of EU Structural Funds**, and the inadequacy of replacement funding, has had a highly detrimental impact on universities' research, innovation and skills activity in Wales. In 2023, Universities Wales identified 60 projects and **1,000 roles at risk as a direct result**. Thus far, replacement funds such as the Regional Innovation Fund, have been short-term, limiting the ambitions of recipients and undermining partnerships.
- **Investment in flexible, part-time higher education is also declining.** Between 2014/15 and 2024/25, learning and teaching funding for part-time higher education increased just over £3 million in absolute terms, but declined by more than £6 million in real terms.
- **The economic consequences of the above are likely to be significant.** The annual economic impact of Welsh universities is £10.97 billion (2021-22). For every £1m of public investment in universities the economy benefits by £13.1m. **Jobs generated by universities account for up to 12% of a region's workforce in Wales**, including direct and indirect employment created by the presence of students and staff.

International students

International students enrich Welsh communities, supporting a vibrant learning environment. The financial benefits gained from international education are also substantial. Generating over £1.26bn in educational exports a year, international education creates relationships between Wales and global partners at individual, institutional and national levels.

HESA data for 2023/24 shows that from 2020/21 to 2023/24, Wales had the highest level of growth in the UK in international students. Over the same period, Wales outperformed the rest of the UK in growth from Global Wales priority countries, such as the USA and India.

However, we know that following immigration changes made by the previous UK Government in 2023, universities across the UK are almost universally seeing a decline in international students.

Data provided by Enroly, an enrolment platform servicing five Welsh universities, indicates a 40-50% decline across the UK in international recruitment for 2024/25. In Wales, this would equate to an over £80m loss.

Immigration White Paper

Universities in Wales recognise public concerns about immigration and are committed to maintaining robust recruitment practices. Every university in Wales is signed up to the Agent Quality Framework (AQF), which the White Paper proposes making mandatory. All Welsh universities have also agreed a set of principles around ethical and sustainable recruitment practices.

The Graduate Visa route plays a crucial role in ensuring the UK is an attractive destination for global talent. It is therefore welcome that the White Paper confirms that it will remain in place.

The White Paper states that the UK Government will explore introducing a levy on higher education provider income from international students. Introducing a new tax on universities would further exacerbate the financial pressures felt by the sector and would likely impact on the provision of high-cost courses, such as medicine and dentistry. It is understood that the proposal is 'England-only'. We have communicated to Welsh Government our significant concerns behind a levy proposal.

Currently, sponsors of international students must have a visa refusal rate of less than 10%; an enrolment rate of at least 90% and a course completion rate of at least 85% in order to successfully pass their annual Basic Compliance Assessment (BCA) and retain their student sponsor status. The White Paper proposes to raise the minimum pass requirement of each metric by 5%. These changes are likely to be challenging for many institutions across the UK. It is vital that any changes are phased-in; to allow universities the time needed to support the changes and ensure that sponsors can amend their recruitment strategies and processes to ensure they comply with more stringent thresholds. It is important that government and UKVI work together closely with sponsors to ensure they have timely data and understand emerging trends. UKVI should inform institutions when they are close to thresholds earlier and then co-create an action plan to avoid the situation escalating to the point where the only option is to suspend or revoke the license.

Research and Innovation

Welsh universities carry out world-leading research and innovation that tackles global challenges and benefits people, business and public services, both here in Wales and across the world. In REF, 89% of Welsh research received 3 (internationally excellent) or

4 stars (world-leading) for impact, with Welsh universities leading the UK for the proportion of research whose impact is considered internationally excellent or world-leading.

Universities are fundamental players in the research and innovation ecosystem across Wales accounting for 37% of Wales' research and development expenditure. This is compared to a UK average of 23%.

Welsh universities act as regional anchors and drivers of growth, incubators for start-up and spin-out companies, and partners in R&D for businesses of all sizes.

- **Universities are currently underpinning business investment in Wales** in key areas such as nuclear, net zero investment, agri, semi-conductors, hydrogen and new areas such as AI. This is likely to become more important as the UK Industrial strategy is delivered. For example:
 - ✓ Universities underpin the compound semiconductor cluster in south Wales, a cluster with a GVA contribution of £366m to the Welsh economy. Centres such as the Institute of Compound Semiconductors at Cardiff University and the Centre for Integrated Semiconductor Materials at Swansea University provide ground-breaking research that attracts investment that directly employs over 2700 people across the cluster.
 - ✓ Universities across Wales support our drive to Net Zero. Cardiff University, Swansea University and University of South Wales are part of the GW Shift consortium, working across south Wales and the Southwest of England to support the region's hydrogen infrastructure. Projects in Wales are focused on hydrogen production and industrial feedstocks, seeking to reduce industrial carbon footprint.
 - ✓ The Nuclear Futures Institute (NFI) at Bangor University is a multi-million-pound programme that supports research in areas including energy materials, environmental science, biotechnology and life sciences. The programme fosters cooperation through its links with academia, industry and business. The NFI is leading research into emerging nuclear power generation technologies, including commercial light-water reactors and small and advanced-modular reactors (SMRs). SMRs have a smaller capacity (equivalent to 150 wind turbines) than a traditional nuclear power station. They have the potential to resolve the high cost of nuclear energy while also providing low-carbon replacements for coal-fired stations.

- **Universities are responsible for significant levels of business start-up.** HESA data show that over the past decade, there has been an explosion in the number of start-ups supported by Welsh universities.
 - ✓ Wales has the highest proportion of student start-ups per capita in the UK. In 2022-23, over 4,000 people were employed by these start-ups.
 - ✓ Between 2014-15 to 2022-23 there was a 100% increase in the number of start-ups founded at Welsh universities – a higher increase than the UK average (70%). Over the same period, over £180m was secured in external investment through start-ups, spin-outs, and social enterprises originating from Welsh universities
 - ✓ By 2028, it is estimated that a further 2,000 new start-ups - with a predicted turnover of around £551m - could be established at institutions in Wales.
- **There is significant opportunity to capitalise on commercialisation potential.** Wales has established a strong foundation for commercialisation activity and pan-Wales collaboration, including through the **Wales Innovation Network** which seeks to improve collaboration in research and innovation in Wales and bring greater investment to Wales. Further investment in this area could generate significant economic gains for Wales.

Barriers to future success

Recent policy churn at a UK level and the financial instability facing the sector as a whole undermine Welsh universities' capacity to deliver R&I and economic growth to their full potential.

The wider financial challenges facing the university sector present a key risk and limitation in the ability of the research, development and innovation infrastructure to develop. For example, fees and grant funding no longer cover the cost of teaching UK undergraduates or delivering research and innovation activity. With the volatility in international recruitment placing additional financial pressure on institutions, universities are having to make difficult decisions to secure their long-term sustainability. These decisions could limit or inhibit the ability of the sector to capitalise on opportunities for research, development and innovation.

Given the relative importance of universities in the Welsh research and innovation ecosystem – higher education research and development accounts for 37% of Wales' research and development expenditure – this presents even greater risks to Wales than other parts of the UK.

Working across the UK

Engagement between the devolved administrations and relevant parts of UK Government and UKRI can be variable depending on individual relationships or historic engagement. This can lead to the development of UK level priorities or funding competitions that do not reflect the breadth of the UK. Ensuring a joined-up approach will help address barriers to securing growth.

When developing support for commercialisation, UK Government should consider the most appropriate vehicles for that support, including how that support can drive commercialisation across the UK. For example, what may seem like an arbitrary decision on whether commercialisation support is considered innovation funding (via Innovate UK) or university knowledge exchange support (via Research England) has considerable implications for the operation of research and innovation within the devolved nations.

We note that the Devolution White Paper proposes that established mayoralities will get an annual meeting with the science minister, more regular engagement with senior staff at UKRI, and the chance to be consulted on the development of 5 relevant DSIT and UKRI strategies. The selective England-focused nature of these opportunities risks disenfranchising devolved nations and may unintentionally establish an England-first approach. It is essential that devolved administrations are included in the same way as MCAs in this sort of engagement.

Replacement ESIF funding

A central enabler for research and innovation in Wales are the opportunities presented by collaboration, including our ability to leverage the diverse strengths of universities. This collaborative environment was well-demonstrated through the benefits Welsh universities delivered through European Structural and Investment Funds. National schemes such as KESS2 enabled Welsh universities to link companies and organisations with academic expertise to undertake collaborative research projects, working towards a PhD or Research Masters qualification.

The loss of ESIF, and their subsequent inadequate replacement through the UK Shared Prosperity Fund, has had a damaging impact on the capacity of Welsh research and innovation. In March 2023, Universities Wales identified 60 projects and 1,000 staff roles at risk as a result of the loss of EU Structural Funds. The vast majority of these projects were in the research, innovation or skills environment.

The UK Government's commitment to review the arrangements for providing structural funds replacements should consider how best to ensure that this capacity within Wales can be strengthened. Replacement funds should support long-term planning and large scale regional and national collaboration within Wales.

Thus far, replacement funds such as the Regional Innovation Fund, have been short-term, limiting the ambitions of recipients and undermining partnerships. Short-termist funds also affected the confidence of private co-investors. Funding initiatives need long-term stability in order for impact and crowding-in to be measured. Return is typically 3 times greater 10-15 years after public investment than when measured 1 year after investment, and the previous government's policy churn negatively affected how this was measured and promoted to private investors.

The loss of European Structural Funds led to a cliff-edge for university innovation, skills and business support projects across the UK, with many people with industry-facing roles in universities being made redundant. Innovation ecosystems are fundamentally driven by relationships. Therefore, when short-termist policies lead to funding cliff-edges and redundancies, this has a negative effect on commercialisation activity. Relationships take time to build but can easily be lost.

Looking forward, there are lessons to be learned about the efficacy of policies that encourage short-termist outlooks, churn and cliff-edges. There is scope to maximise regional innovation by allocating funding across the UK via the same means by which ESIF were deployed.

Looking ahead

- Both QR funding and the Research Wales Innovation Fund (RWIF) will be key to sustaining excellence and impact and supporting universities to attract external funding.
- Universities will have a key role to play in ensuring the success of the UK Government's Industrial Strategy. This needs to be reflected publicly in the strategy itself and in the sector plans through funding.

Flexible, part-time higher education

Between 2014/15 and 2024/25, learning and teaching funding for part-time higher education increased just over £3 million in absolute terms, but declined by more than £6 million in real terms.

In 2014/15, part-time credit based, per capita, and premia funding, plus strategic funding for The Open University in Wales, totalled £30.375 million. Had this kept pace with inflation, it would have been £40.784 million in 2024/25. In reality, funding in 2024/25 totalled £34.647 million. This equates to a 17.71% real terms funding reduction.

The most recent student numbers available from HESA show that the number of part-time undergraduate students across the whole sector in Wales reduced from 28,305 in

2014/15 to 27,685 in 2023/24. This is a ~2% decrease (although proportionally numbers have increased significantly at The Open University in Wales).

Across the sector, funding per student in 2014/15 was £1,073. Despite increasing absolutely to £1,205 per student in 2023/24, this remains £197 or 16.31% short of what it would be, had it have kept pace with inflation (£1,401).

Reform of the student finance system to provide equitable support for part-time students was delivered in 2018/19, following Prof Sir Ian Diamond's 2016 review. That demand-side reform has led to a significant increase in uptake of part-time higher education at The Open University in Wales, with particularly notable increases in uptake from communities in the lowest two quintiles of the Welsh Index of Multiple Deprivation, as well as students who declare a disability or who are carers. This demonstrates how access to flexible and part-time study can be an enabler for people to take actions which ultimately reduce poverty and aid growth.

Overall institutional funding for part-time provision is significantly below the level recommended by the Diamond Review; £61 million (2016) or £81.334 million in 2024 terms.

The part-time fee loan cap (i.e. the maximum amount students can borrow to fund part-time study) has been static at £2,625 since 2014/15. Therefore, it has lost almost £1,000 in value in the intervening decade. This places the onus on institutions either to set fees at a level at which students cannot borrow the full amount with the obvious implications for access and participation, or to accept that fee income will continuously lose value. Work is currently underway by Welsh Government to explore an uplift to the fee loan cap. Clarity on the final position with this work is awaited.

All of these factors combine to create a system in which it is difficult fully to realise the transformative impact of flexible HE study. This has implications for individuals, communities and the economy.

Sustaining the limited improvements we have seen to access and participation in part time and flexible learning could be considered at risk in the context set out here.

EU-UK deal and Horizon Europe

Horizon Europe

Emerging data shows a marked uplift in participation in 2024 by our universities, the first year of full association to the programme compared with 2023, the final year of the UK guarantee. It breaks the downward trend for participation between 2021 and 2023 which coincided with the UK Guarantee. Universities Wales and Welsh Higher Education Brussels (WHEB) are working with the sector to assist researchers in our institutions to

maintain this upward trend for the last three years of the programme. Based on this evidence, **we will be working with Universities UK to strongly advocate for association to FP10 from 2028-35.**

Welsh universities have been involved in a total of 111 retained proposals so far, with an EU eligible contribution amounting to approximately €51 million (€50,786,909). Full data on 2024 participation will be available later this year so we expect the data to show even greater increase in participation in 2024 compared to 2023. Securing this amount of funding is to be celebrated when we take into account the significant reduction in the support services in universities following the end of EU structural funds.

Universities accounted for 78% of participations by organisations based in Wales from 2021-24. This compares to around 70% in Horizon 2020. This might demonstrate a decrease in the participation of the private sector in Horizon Europe where the uncertainty surrounding association to the programme would have had a larger effect. Whilst we would like to see greater engagement of the private sector in the programme, this data shows the critical importance of universities in securing this competitive funding for Wales.

Welsh universities are involved in almost all parts of the programme, particularly in the excellence science pillar with MSCA accounting for almost half the participations. However, universities are involved in all the clusters for collaborative research with colleagues across Europe from health, culture, energy through to bioeconomy and agriculture.

Student mobility

The announcement on Monday 19 May from the UK-EU Summit including a commitment to work towards a balanced youth experience scheme and towards the association of the UK to the **Erasmus+** programme has been welcomed by Universities Wales.

The Erasmus programme is very important for higher education institutions across Europe with the range of exchange and collaboration opportunities it offers to learners, educators and organisations. The opportunities for mobility and co-operation offered by the Erasmus programme are greatly valued by universities in Wales who were active participants in the Erasmus European mobility programme since the start of the programme in 1987 and who were very disappointed that the UK Government decided not to associate to the programme from 2021 onwards.

Universities in Wales recognise and value the benefits of being part of a multiannual mobility programme supported by mechanisms such as the Erasmus Charter and which

allow beneficiaries flexibility and trust to manage their funding appropriately. Many universities in Wales also benefited from participation in the co-operation projects and ICM parts of the Erasmus+ programme which enabled collaborative work with a range of partners and supported universities and learners in civic engagement work.

Moving forward it will be important for the valuable experiences gained through the work of the **Taith programme** in supporting a wider range of learners to be mobile to be fed into the wider discussions around the next Erasmus programme which is due to start in 2028 and also the specific association discussions for the UK.

Connecting research and education it is also important to note that the European Commission is focused on encouraging synergies between different programmes and has been keen to link Horizon Europe and Erasmus, in particular through releasing Horizon Europe funding for participants in the Erasmus University Alliances initiative. UK association to Erasmus as well as the future FP10 R&I programme could enable further connections thus cementing the policy linkages of the ERA and the EHEA.

The proposed 'youth experience' scheme could also be of interest to universities as it could enable study in the UK by EU students and study in an EU country by a UK student on an easier basis than the current arrangements, but more detail is needed on this area.

Participation

The proportion of Welsh-domiciled 18-year-olds applying to university is dropping and is lower than elsewhere in the UK. That means **18-year-olds in England, Scotland and Northern Ireland are more likely to go to university than their Welsh peers.**

The latest UCAS data, demonstrating applications made by the January deadline, shows the continued drop-in application rate in Wales: The application rate is now 32.0%, the lowest rate in the UK. **The gap between the rate in Wales and the rest of the UK has been increasing over time and is now at 8.6 percentage points.**

Furthermore, Wales has also seen a drop in the application rate from quintile 1 of the Welsh Index of Multiple Deprivation (i.e. the most disadvantaged), whereas England and Scotland have seen an increase in application rate in the equivalent cohort. **Long-standing generational inequality is being baked in.**

It's not just at 18 that young people are opting out of education. Welsh Government figures indicate that an increasing proportion 16-year-olds are not progressing from Year 11 to education, training or work-based learning. In 2017, 90% of school leavers were staying in education, training or work-based learning. That fell to 80% in 2022.

The pipeline for higher education is declining – far too few young people in Wales are undertaking A Levels. **In England, 47% of school leavers go on to study A Levels, compared to just 33% in Wales.** There has also been a decline in BTEC students applying for university.

The future of the Welsh economy depends upon the nation being sufficiently equipped to capitalise on industrial, digital and societal developments, with increasing demand for graduate-level skills. Research has shown that more than **400,000 extra graduates will be needed in Wales by 2035** in order to respond to skills gaps and workforce challenges of the future.

The implications for individuals, and the life-changing opportunities that they may miss out on, is also significant. There is a real chance of a generation that is be less well-qualified than their predecessors. Individuals are **losing out on the benefits of a university education** – including a significant boost to salary, employment levels and a graduate's career prospects throughout life, with a generational impact. Studies show that higher education is a **driver of better physical and mental health**, even after accounting for other biographical factors, such as socioeconomic background and gender. The benefits of higher education are felt by the children of graduates too, and these cross-generational benefits are estimated to be worth at least as much as the financial benefits of increased earnings.