

# Medr

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

# Financial sustainability of the higher education sector in Wales

Academic year 2024/25; forecasts 2025/26 to 2027/28

**March 2026**

Mae'r ddogfen hon hefyd ar gael yn y Gymraeg |  
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[www.medr.cymru](http://www.medr.cymru)



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## Introduction

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:

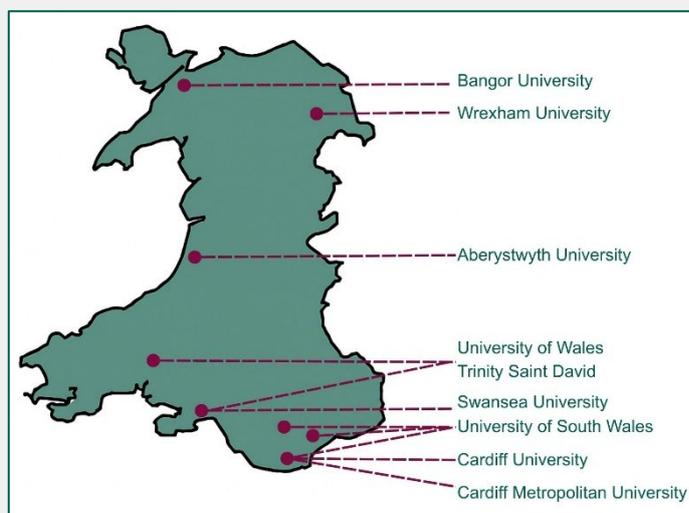
- further education
- higher education, including research and innovation
- adult community learning and work-based education
- apprenticeships
- local authority maintained school sixth-forms

Medr has a statutory duty to monitor the financial sustainability of tertiary education providers in Wales. This includes ensuring providers have credible plans in place to ensure their short-term financial viability and longer-term financial sustainability. This publication provides our assessment of the financial sustainability of the higher education sector in Wales.

### Scope of report

Our sector level assessment is based on the annual financial statements published by universities for the academic years 2023/24 and 2024/25<sup>1</sup>. The higher education sector in Wales comprises eight very diverse institutions<sup>2</sup>. Aggregated sector-level figures should not be taken as indicators of the financial position of any individual institution.

The report excludes the Open University in Wales as it does not disaggregate financial data on a regional basis. It also excludes the University of Wales, as it is not currently an awarding body for other institutions in Wales and has limited activity as a standalone entity. Further education or sixth form colleges and alternative providers of higher education (HE) are also excluded.



Medr requires universities to prepare confidential, five-year forecasts that are approved by their governing bodies. These include standard “nil growth” and “downside scenario” modelling, in addition to any specific downside modelling that each institution determines necessary based on their own assessment of financial risks attached to their forecasts. This report includes our assessment of the high level, confidential forecast information submitted to Medr for the academic years 2025/26; 2026/27; and 2027/28. This helps provide an indication of the sector's expectations for future years.

Full time undergraduate courses are a mainstay of university income and typically provide three years of secured income compared to one year for postgraduate study. It is therefore important to prepare forecasts that model the impact of existing undergraduate cohorts' progression as well as forecasts for future new students. Recent years have clearly illustrated the higher education sector's exposure to economic, geopolitical and other pressures outside the control of institutions that are difficult to anticipate. Competition for students between UK and global providers and inflationary pressure on costs adds to the challenge of accurately forecasting future performance.

<sup>1</sup> Open data is published at [HE Finance Data | HESA](#). Other publicly available sources are credited individually.

<sup>2</sup> All of the institutions included in this report are universities, and these terms are used interchangeably.

Forecast information included in this report should therefore be viewed as the sector's best assessment of future years at a point in time (early summer before the start of the first forecast year). Forecasts for later years are more difficult to reliably predict and they will change as frequently as the circumstances require. Forecasts for later years should therefore be regarded as early and indicative only. The forecast data presented here is an aggregation and is not designed for institution-level inference.

## Medr's regulatory oversight

Medr monitors the financial health of the higher education sector in Wales based on the [Financial Management Code](#) established by our predecessor, the Higher Education Funding Council for Wales (HEFCW).

We work closely with each university 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. We also work closely with Universities Wales, the higher education sector representative body. The frequency of Medr's engagement is driven by our assessment of the level of financial risk faced by each institution. The minimum frequency of engagement with higher education finance teams is quarterly.

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.

Medr's financial monitoring is undertaken via the collection and analysis of a number of annual data returns. These returns are regularly supplemented and contextualised by individual engagement with the finance teams of all institutions. Whilst no single metric determines financial sustainability, we monitor a suite of indicators including liquidity, operating performance, cash generation, staff cost ratios and covenant headroom. These are assessed in the round, alongside institutional context, rather than as fixed thresholds.

Medr's new regulatory framework will be introduced from 1 August 2026. The new framework will include a range of requirements, including regulatory conditions covering financial sustainability, governance and management. More information on the new framework can be found on our [website](#).

All universities in Wales are autonomous charities, registered with the Charity Commission. Charity rules require that university governing bodies, as charity trustees, have a duty to manage the resources of the institution responsibly and make decisions based on what is right for the university's mission, thinking about the longer-term implications. Institutions are required to notify Medr promptly should they identify any material risks to their financial viability.

## Key summary

The higher education sector in Wales, in common with the rest of the UK, is currently operating in an exceptionally challenging financial environment.

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 universities in Wales have announced cost-cutting measures including voluntary severance schemes, course closures and other restructuring activities.

Medr's assessment, based on current information and the successful delivery of planned efficiencies, is that no university in Wales is currently at imminent risk of disorderly financial failure.

However, a number of universities have significant transformation activities to implement in order to secure their longer-term financial sustainability. The sections below summarise the factors affecting the financial position of the sector.

## UK higher education context and background

The UK university sector excluding Scotland, which has a different funding model, saw the emergence of increased marketisation in 2012 with the introduction of the £9,000 per annum student tuition fee. However the sector retains many core activities incompatible with true marketisation:

- The main income stream remains UK undergraduates. The tuition fee for UK undergraduates studying in Wales was capped at £9K from 2012/13 until 2023/24. Annual inflationary increases have been announced by the Welsh Government covering 2024/25 to 2026/27.
- Research and innovation is a core element of HE identity and purpose. The UK and Welsh Governments identify research as a driver of economic growth. Ensuring that Quality Research ('QR') funding for the Welsh sector does not fall further behind the rest of the UK is crucial in maintaining research capacity in Wales by supporting a stable research base and providing funding for early research to develop concepts to a stage suitable to attract funding from research councils and other funders. Research project funding from public sources is designed not to cover full costs, with a 20% contribution expected from the institution. In reality the UK sector's overall research recovery was 67% in 2023/24<sup>3</sup>, requiring internal funding of 33%. This recovery rate includes baseline Quality Research (QR) funding from regulators and funders<sup>4</sup>, indicating lower recoveries at a project level.
- Civic mission - government expectations of universities include an important and wide ranging civic role and compliance with public sector policies. Many run art centres, open up their facilities, and support community-based projects.
- Public sector expectations – UK sector pay remains modelled on public sector arrangements with strong staff unions, annual salary increments built in, and membership of large defined benefit pension schemes, some with mandated membership (for example the Teachers Pension Scheme). Individual institutions are able to exercise very limited control over these costs. Welsh universities are national living wage employers and all have published net zero targets.

Both UK and Welsh Government funding via regulators has also remained relatively flat in recent years. Inflation over the period from 2012 to 2024 has been significant, particularly post pandemic, and institutions have increasingly funded this by diversification into areas such as transnational education (TNE) and attraction of increased numbers of international students.

Geopolitics and recent UK government immigration policies have significantly curtailed the international market. This has led to widescale restructuring to align costs to the reduced income streams. In the medium term the UK sector will need to continue to control costs and simultaneously also identify and build new income streams to mitigate future inflationary pressures and to reduce the need for ongoing cost reductions and restructuring. This will need to be achieved in the context of continued geopolitical uncertainty, including significant political



<sup>3</sup> [TRAC data | Office for Students](#)

<sup>4</sup> Medr, Office for Students, Scottish Funding Council, Department for Education (Northern Ireland)

pressures on immigration, and, from 2030, a demographic decline in 18 year olds the UK.

There is an appetite in the UK government for the sector to collaborate further, both to benefit learners and to mitigate costs. With the introduction of a new tertiary framework this is also clear in Welsh Government policy. The UK sector is currently volatile and challenging, and institutions are taking steps to preserve cash to provide headroom to navigate this environment. Any significant steps in the collaboration space will therefore require the impetus of strategic funding injections.

### Underlying operating performance



The sector reported an underlying operating deficit of £(82.1)M for 2024/25, a £25.0M deterioration from 2023/24 reflecting that much of the sector are operating planned, time-limited managed deficits whilst undertaking restructuring to reduce the cost base in line with reductions in income. Six institutions reported an underlying deficit in 2024/25. The sector is forecasting a lower underlying deficit of £(11.1)M by 2027/28, with four individual institutions in deficit, with a sector surplus and one small individual deficit by 2028/29. The trajectory reflects transitional restructuring costs rather than ongoing structural losses.

### Income



Income forecasts in the sector are intentionally cautious, in line with Medr's steer and reflecting the current UK HE environment of increasing competition for students and volatility in international markets.

Income is forecast to increase from £1,894.2M in 2024/25 to £1,966.3M by 2027/28. The bulk of this growth is inflationary increases in tuition fees.

Growth in student numbers is more cautious, with overall student numbers remaining level and expected reductions in home undergraduate and international postgraduate students. This recognises the increasingly competitive environment with continuing geopolitical challenges and reflects the more recent recruitment levels achieved rather than the growth experienced in prior years.

### Cash headroom



Sector cash balances declined by £81.0M in 2024/25 to £795.1M (including current asset investments). A further reduction to £641.6M is expected by 2027/28. Some cash is being held in advance of ringfenced capital projects expended during the period, so some reduction is expected. Other elements of this reduction represent the funding of managed deficits throughout the sector. Institutions continue to take proactive steps to preserve cash headroom.

Cash is not held evenly throughout the sector, with three institutions holding around 85% of the sector total throughout the period.

## Estates



Estates spend has been limited with many projects deferred for a number of years. Most institutions are undertaking minimal investment outside externally funded and business critical projects. Backlog and lifecycle maintenance requirements are significant and increasing. Institutions have published net zero targets that they aspire to meet, in line with Welsh Government and wider priorities. These normally require significant investment. Changes in working and teaching practices and the need for more timely operating performance reporting, are leading to increasing requirements for digital infrastructure enhancements.

## Borrowing



Sector borrowing remains above the UK sector average, but with 66.4% of the debt being asset backed public bond or service concessions repayable in full after more than 10 years, and 81.0% of debt being at fixed rates, the majority of borrowing is not high risk. The current deficits are putting pressure on bank covenant headroom, with some institutions deterred from further borrowing, even at preferential financial transaction capital rates to address net zero capital projects. There has been an increase in the use of revolving credit facilities to support working capital cash headroom.

The sector forecasts a small amount of further borrowing to fund improved facilities to support delivery to students.

## Net operating cash generation



This is key to securing financial sustainability. Institutions need to generate sufficient cash from ongoing activities to service debts and invest in infrastructure and future activities. Cash generation after debt servicing was an outflow (cash deficit) of £(85.6)M in 2024/25, driven by outflows in six institutions. This is unsustainable in the medium term and is driving the current restructuring programmes. The sector forecasts a further, smaller outflow in 2025/26 before a return to inflows.



The financial position of the sector is very fluid in the current environment with forecast assumptions being constantly updated as circumstances change. Published financial results are historic and can only be viewed as a snapshot in time. Forecasts are not a guarantee of future performance returns and are highly likely to change over the planning period.

## Risks and mitigations

### UK student recruitment and tuition fees

The UK student market is increasingly competitive. Student behaviours are changing and competitor institution behaviours are increasingly aggressive, making accurate forecasting difficult. The recruitment trends of previous years are no longer good indicators of current and future years. The long period of a fixed maximum undergraduate tuition fee with no inflationary uplift has reduced financial performance and the sector's resilience. The recent fee uplift announcements by the Welsh Government should improve this in future years. Future governments will make their own decisions about the timing of further uplifts to the tuition fee cap, or any more structural changes to the HE funding model, in line with their own priorities and circumstances. The pace at which uplifts are introduced compared to England inevitably impacts on the relative investment and competitiveness of Welsh institutions. The retention of the current model without ongoing uplifts and without significant development of diversified income streams would likely require further mitigating actions, beyond those already reflected in the forecasts, to manage ongoing cost inflation. A gradually declining trend in the percentage of Welsh domiciled students attending Welsh higher education in recent years, with a slight improvement in 2024/25, and a declining demographic of UK 18 year olds from 2030 onwards add further pressures.

*Institutions are reviewing and refreshing course portfolios; expanding the use of digital technology; improving marketing; and maintaining and improving student support, experience and retention as important tools in maintaining and potentially increasing market share.*

*Medr will continue to liaise closely with the Welsh Government on the current challenges to the sector.*



### UK Visas and Immigration (UKVI)

The impact of the proposed introduction of tighter requirements by UK Visas and Immigration in their Basic Compliance Assessment for international students is currently being assessed by institutions. The worst case scenario would be suspension and revocation of an institution's student sponsor licence, which could result in an institution no longer being permitted to recruit international students.

*Institutions are monitoring their performance at a granular (domicile) level and implementing domicile specific policies where deemed necessary. This adds further challenge to financial planning.*

*Medr is liaising with the institutions to understand individual exposure to this risk and ensure that they are sighted on any potential risk.*



## Restructuring and ongoing cost control

Delivery of ongoing transformation programmes to the planned timetable is crucial for institutions to meet their forecasts and return to financial sustainability. Ongoing cost control will continue to be required to allow costs to flex in line with income changes (mainly linked to student recruitment). The sector particularly highlights the challenge of managing staff costs, including pension contributions and national insurance, utilities and digital infrastructure subscriptions and licences.

*Institutions are tracking progress against plans for the delivery of savings and reporting to both their governing bodies and subsequently Medr. Institutions will need to monitor and be accountable for performance against budgets at a granular level, with frequent review of operating models and re-assessment against strategic priorities required as circumstances evolve. Ongoing controls in areas such as staff vacancy lists, non-pay expenditure management, deferral of capital expenditure and review and improvement of estates utilisation will continue to be required.*

*Medr monitors progress on delivery as part of routine engagement.*

There is a further risk that reducing costs is eroding capacity to deliver in certain areas. This may give rise to an absence of subject provision (often referred to as cold spots<sup>5</sup>) such as modern foreign languages, and will impact areas particularly sensitive to loss of staff numbers, such as Welsh language provision and areas of research capacity.

*Individual institutions will need to monitor and manage these risks.*

*Medr will maintain oversight of HE provision in Wales to inform policy.*



## Cash

Cashflow and headroom pressures are requiring increased treasury management and more investment in systems to provide timely information. Cash inflows fluctuate significantly during the financial year and low cash headroom results in the need for very close management of cash receipts and payments. Cash headroom is required to deliver strategies that rely on prioritisation of spend on estates, infrastructure, research capacity and other institutional priorities.

Without sufficient cash headroom institutions will have less time to implement change strategically where required.

*Institutions will need to continue with strong monitoring of cash against borrowing covenants, key performance metrics agreed with the governing body and committed spend together with clear policies and process around strategic priorities and authorisation of spend.*

*Cash levels and any anticipated pressures are part of standing agendas during Medr's routine confidential engagement with each institution.*



<sup>5</sup> [Medr/2026/04: Subjects of study – demand, provision and distribution of subject areas across higher education in Wales](#)

## Estates

The sector has a significant backlog maintenance challenge.

Institutions have publicly signed up to support government net zero targets. At a UK level this is estimated to cost the sector £37.1BN<sup>6</sup>.

Most estates development in the sector is being undertaken via external funding currently as cash is being preserved. Some institutions have limited headroom in bank covenants, which disincentivises the use of Welsh Government Financial Transaction Capital (FTC). Higher education institutions do not currently have access to Welsh Government capital funding such as sustainable communities for learning and mutual investment model funding that are available to the further education sector. Some institutions are undertaking projects via regional growth schemes. The long time frame for approval of these leads to construction inflation, with institutions then either reducing project scope or partially funding from other means. Grant funding in arrears can increase treasury management pressures as the costs have to be paid before the grant funding is received.



*Institutions continue to benchmark and review space optimisation and capital strategies. Capital projects are scrutinised heavily against strategic priorities.*

*Medr monitors progress as part of routine engagement. This includes discussion of funding sources and any potential treasury management pressures.*

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<sup>6</sup> [The Cost of Net Zero Report and Calculator | EAUC](#)

## Research and innovation

Declining international student fee income adds significant pressures to research capacity as these fees have historically subsidised the costs of research. Institutions' other resources are also stretched at a time when governments are looking to research and innovation to catalyse economic growth. Competitive project-specific grants from public funders are deliberately not funded at full cost, to avoid a transactional, contractual approach which might impinge on academic freedom, but limited resources mean choices need to be made about which projects institutions can support. There is a risk that research capacity will become more narrowly focused, which may drive up quality, leading to more success in capturing grant income, but comes with a trade-off of maintaining a broad base of research that can respond to future unknown challenges and underpin a high quality, research-informed, learning experience. Opportunities for early career researchers may decline as institutions focus on proven track record, impacting the future pipeline.

Current areas of research strength in Wales span the key growth sectors identified in the UK Government's Industrial Strategy, but this capacity has taken time to develop based on sustained investment, and once lost will be difficult to rebuild as other universities seek to capitalise on gaps and create a competitive advantage. Collaboration is key to building the critical mass necessary to secure large grants, and can harness complementary strengths, but requires investment to create strong partnerships.

*Medr has a role in monitoring research capacity in Wales and supporting providers to secure more income from competitive sources, which include UK Research and Innovation (UKRI), UK Government, the European Horizon programme, and charities. Collaboration will be critical, building on the work of the Wales Innovation Network (WIN). Medr supports work by UKRI to explore best practice in the sustainable costing of bids, and providers have a role to play in taking account of these developments.*

*Medr has a role in supporting underlying research and innovation capacity in the sector through QR (Quality Research) and Research Wales Innovation Fund (RWIF) funding.*



## Economic and social impact

Welsh higher education institutions are large local employers and, in most cases, anchor institutions in their regions. The broader impact of the widespread restructuring and ongoing cost control on these regions is likely to be significant.

The current financial pressures are leading institutions to re-examine their strategic and core delivery priorities. There is a risk that activities which are both outside of these priorities and which do not attract sufficient external funding, such as wider community engagement, are scaled back.

Wider economic pressures throughout many sectors in Wales (and the UK) put further pressure on higher education funding for providers from the Welsh and UK governments, with a risk that funding will remain flat, not keep up with inflation, or even decline.

*Universities continue to publish information about their economic impact<sup>7</sup> to inform both the public and Welsh Government officials and politicians.*

*Institutions work closely with employers to understand and respond to skills needs, to ensure a qualified, productive, workforce.*

*Medr has a role in encouraging collaboration (within the current limitations of CMA requirements) to improve financial sustainability and regional economic impact and coherence.*



## Medr

Implementation of a new regulatory framework is an additional pressure on institutions at a time when capacity is stretched.

*Medr recognises these pressures and has sought to mitigate them where possible throughout the process.*

*Working within a wider tertiary sector with an increased drive to work collaboratively is both an opportunity and a pressure. It brings widespread opportunities for both providers and learners. Medr will continue to work with the sector and has been heartened by engagement to date.*



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<sup>7</sup> [Welsh universities boost growth and productivity across the UK | Universities Wales](#); [Social, economic and cultural impact | Cardiff University](#); [Social and economic impact | University of South Wales](#)

## Medium term sector outlook (UK wide)

The UK higher education sector is currently operating under a combination of very competitive existing income markets, and ongoing cost inflation. Medr, and the higher education sector more broadly in Wales, are not currently aware of an appetite at a UK Government level to fundamentally revise the funding model. Therefore institutions are developing new diversified income streams such as sub-contractual and partnership arrangements, including internationally, to meet ongoing inflationary cost pressures. Further diversification into these areas, which are complex and require appropriate upfront due diligence and robust ongoing controls to mitigate against reputational and / or financial loss, is inherently risky, particularly as the whole UK sector has this aim currently. Successful delivery requires up-front costs and will take time to realise a financial benefit. The risk that these projects are not delivered successfully would lead to further cost reductions at institutions. Given the scale of cost and staff reductions already undertaken at some institutions this may require fundamental changes in delivery models.

*Institutions will need to undertake robust due diligence in setting up such new provisions and carefully track progress against forecasts to enable early identification should income streams not materialise.*

*Medr will continue to monitor developments in this area.*



## Mitigations summary

Whilst many of the current broad financial challenges are common to the whole Welsh sector, and indeed the wider UK sector, they will impact each institution differently. Each institution will therefore have its own bespoke range of mitigating actions.

Strong controls over financial performance and indicators ensures that institutions have early warning of potential risks. Institutions are required to monitor future cash flows and covenant compliance and report these regularly to their governing bodies.

Institutions continue to track and report delivery against savings targets, and on an ongoing basis regularly review their operating models to identify indicators of further action required.

Institutions are aware that continually saving costs is not sustainable, and there is a limit to the efficiencies available without impacting delivery. Institutions also need to improve and develop income streams. This might be by maximising existing income streams, and by developing new markets, such as overseas markets and partnerships, including transnational education, and expanding digital delivery. Alternatively more radical changes to the business model of higher education would be required, which may fundamentally impact the nature of the UK sector.

## Financial performance

Figure 1 below provides a summary of key financial information for the Welsh higher education sector taken from an aggregation of the Higher Education Statistics Agency (HESA) finance record returns and institutional forecasts submitted in confidence to Medr.

As with all aggregated analysis, the sector-level position masks significant variation between institutions and should not be interpreted as an indicator of the financial position of any individual provider.

**Figure 1: Aggregate financial data (£M)**

	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
	Actual	Actual	Actual	F/cast 1	F/cast 2	F/cast 3
Total income	1,980.1	1,980.1	1,894.2	1,873.1	1,928.8	1,966.3
Headline operating surplus / (deficit)	95.7	303.0	(123.6)	(109.3)	(25.6)	(11.3)
Operating surplus / (deficit) excluding non-cash pension adjustments <sup>8 9</sup>	43.5	(72.6)	(128.1)	(107.1)	(23.4)	(9.1)
Underlying <sup>10 11</sup> operating surplus / (deficit)	45.0	(55.2)	(79.3)	(96.2)	(22.3)	(9.5)
Net cash in / (out) flow from operating activities	130.9	(14.0)	(22.5)	6.1	86.7	105.2
Cost of debt servicing	(62.1)	(58.5)	(63.1)	(53.6)	(62.7)	(59.5)
Net cash flow from operating activities after debt servicing	68.8	(72.5)	(85.6)	(47.5)	24.0	45.7
Cash and cash equivalents	335.3	399.2	347.0	234.2	229.0	252.3
Current asset investments	659.1	476.9	448.1	412.2	395.0	389.2
External borrowing	899.2	892.1	902.2	911.1	882.2	855.4
Capital expenditure	162.0	174.4	137.9	192.9	110.1	67.5

<sup>8</sup> Non-cash pension adjustments to defined benefit schemes impacting both staff costs and interest payable

<sup>9</sup> Previously published equivalents added back non-cash pension adjustments in staff costs, but not in interest payable. The previously published equivalent figures are 2022/23 £22.9M (including £21.3M non-cash pension); 2023/24 £(76.9)M (including £4.3M non-cash pension)

<sup>10</sup> 'Underlying' is defined as excluding both non-cash pension adjustments and fundamental restructuring costs.

<sup>11</sup> Previously published equivalents added back non-cash pension adjustments in staff costs, but not in interest payable. The previously published equivalent figures are 2022/23 £23.7M (including £21.3M non-cash pension); 2023/24 £(57.2)M (including £4.3M non-cash pension)

	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
As % total income	Actual	Actual	Actual	F/cast 1	F/cast 2	F/cast 3
Operating surplus / (deficit) excluding non-cash pension adjustments	2.2%	(3.7%)	(6.8%)	(5.7%)	(1.2%)	(0.5%)
Underlying surplus / (deficit)	2.3%	(2.8%)	(4.2%)	(5.1%)	(1.2%)	(0.5%)
Underlying staff costs	52.9%	56.0%	58.5%	58.7%	56.3%	55.9%
Other operating expenditure	35.9%	37.2%	35.9%	36.7%	35.8%	35.8%
Net cash flow from operating activities	6.6%	(0.7%)	(1.2%)	0.3%	4.5%	5.4%
Net cash flow from operating activities after debt servicing	3.5%	(3.7%)	(4.5%)	(2.5%)	1.2%	2.3%
External borrowing	45.4%	45.1%	47.6%	48.6%	45.7%	43.5%
<b>Other metrics</b>						
Net liquidity as number of days expenditure <sup>12</sup>	203	170	159	130	126	128
Net liquidity days including undrawn revolving credit facilities	204	192	183	159	156	158

At an aggregated level the sector reported a decline in income levels in 2024/25. This drove an increased and unsustainable operating deficit and lower underlying cash generation, reflecting the decision by a number of institutions to operate time-limited managed deficits to allow time for strategic restructuring of cost bases and the consultation period required. Sector cash also reduced as managed deficits were funded to allow time for planned restructuring. This is in line with the widespread restructuring currently being undertaken across Wales and more widely across the UK sector.

Income forecasts are cautious but not overly so, balancing the challenge of growing existing income streams and identifying new sources with the recognition that income needs to grow to mitigate ongoing inflationary pressures on costs. The impact of the restructuring can be seen in the reductions in the underlying deficit position, but at an aggregate level the sector has not returned to surplus by 2027/28, even though some income growth has been recognised. The sector as a whole forecasts a return to surplus in 2028/29.

From 2026/27 performance is forecast to stabilise, as operating cash generated covers debt servicing costs, but still allows little headroom for inward investment. Planned capital expenditure, at reduced levels, is not forecast to be fully met from cash generation until 2027/28.

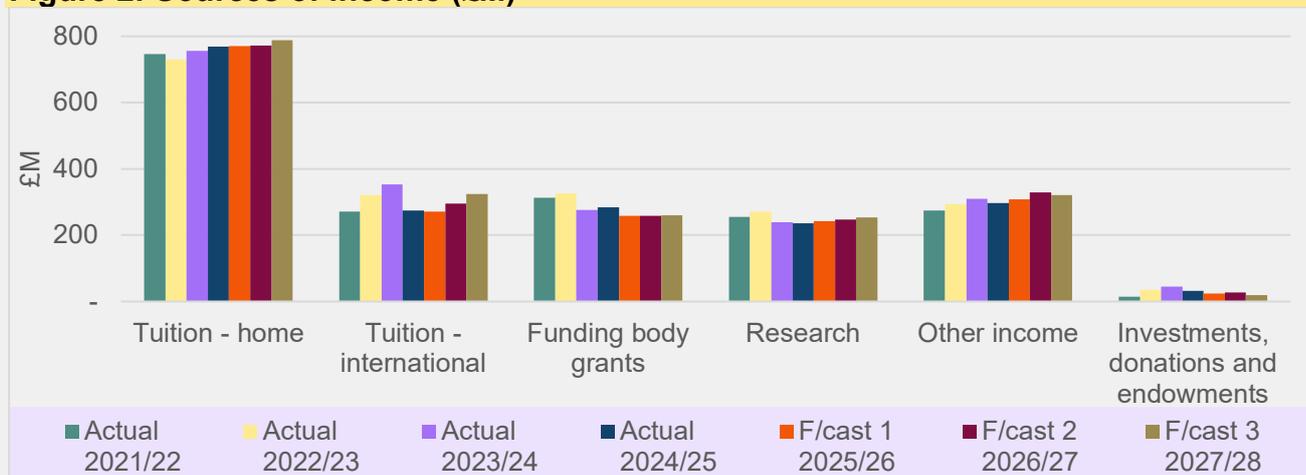
<sup>12</sup> Net liquidity is based on underlying cash costs (expenditure excluding depreciation, non-cash pension adjustments (in staff costs and interest payable) and fundamental restructuring costs). Previous published equivalents did not adjust for non-cash pension adjustments in interest payable. The previous published equivalents are 2022/23: 201 days; 2023/24: 192 days.

## Income

[Figure 2](#) sets out sector income by source with actual income reported for the four years to 2024/25 and forecasts to 2027/28.

Welsh universities receive income from tuition fees (UK, or 'home', and international) and education contracts; funding bodies (primarily Medr) funding for higher education and further education (in group scenarios); research activities; other income, including residences and catering, commercial income, some transnational education income (TNE) and grants; investment income; and donations and endowments.

**Figure 2: Sources of income (£M)**

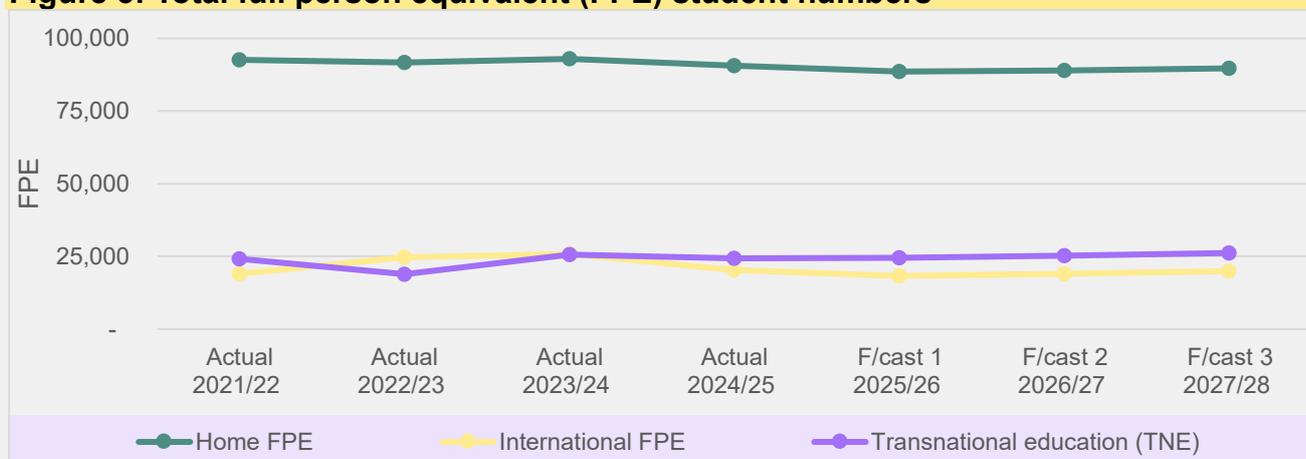


Total income declined in 2024/25 to £1,894.2M, an £85.9M reduction on the prior year. Income is forecast to increase to £1,966.3M by 2027/28 (3.8% increase). This remains below the total income of £1,980.1M reported in 2022/23.

## Tuition income

Tuition fees remained the largest source of income, accounting for 55.1% of total income in 2024/25 and forecast to increase to 56.6% by 2027/28 ([figure 2](#)).

**Figure 3: Total full person equivalent (FPE) student numbers<sup>13</sup>**



Home<sup>14</sup> tuition income has risen gradually and is forecast to continue this trend, rising by 1.9% by 2027/28. By contrast total student full person equivalent (FPE) numbers ([figure 3](#)) are forecast to decline by 1.1% over the same period. As 89.1% of home fees are full time undergraduate, this

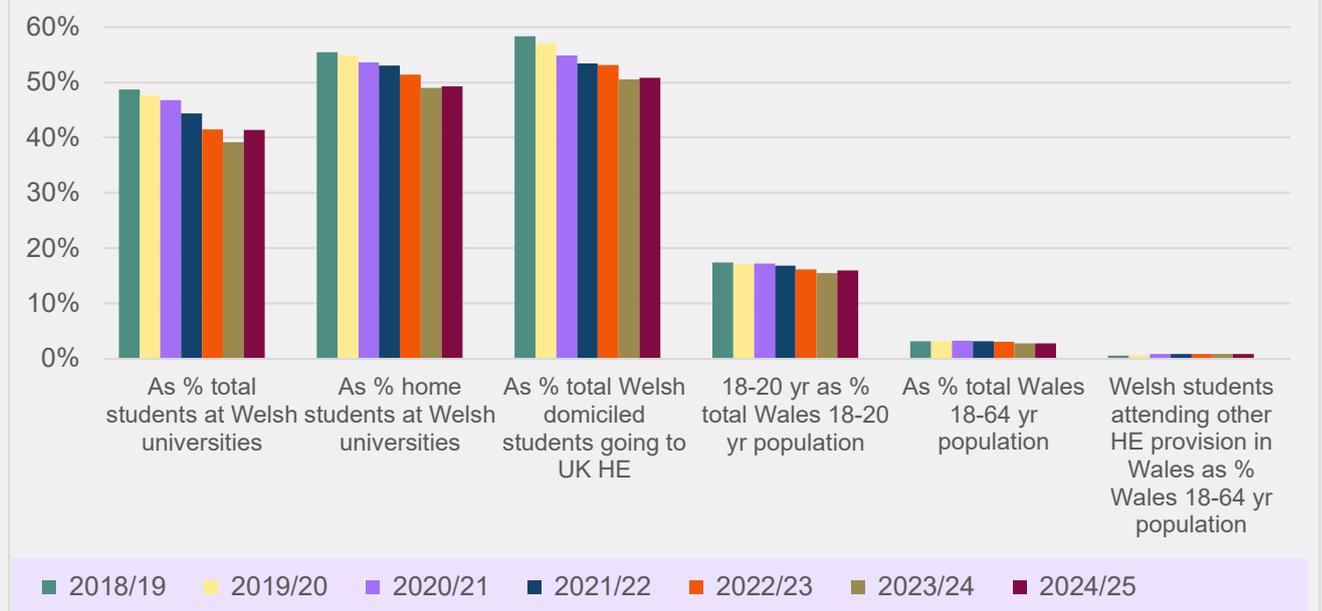
<sup>13</sup> Taken from confidential student FPE forecast submissions

<sup>14</sup> 'Home' defines UK domiciled students. It includes eligible EU students. Both terms are used interchangeably in this report.

indicates that the growth is largely accounted for by increases in the maximum home undergraduate fee recently announced by the Welsh Government, rather than growth in student numbers. These uplifts do not fully offset inflationary increases in delivery costs. Whilst the inflationary fee increases are not fully recognised in the forecast years, it is clear that student numbers are forecast to remain relatively flat, with the sector recognising increasing competition for home students.

At a UK regional level the Welsh sector has experienced a gradual decline in intake from Wales, with some marginal improvement in 2024/25. [Figure 4](#) illustrates that Welsh students have been reducing both in terms of the number of young students attending university and their proportion within universities in Wales<sup>15</sup>. Universities in Wales have to attract and successfully recruit students, not only those living in Wales, but from across the UK and internationally to remain financially sustainable at their current level of provision.

**Figure 4: Welsh domiciled student enrolments at Welsh universities<sup>16 17</sup>**



International tuition income<sup>18</sup>, which is not subject to a maximum fee cap, grew strongly up to 2023/24, but, in line with the rest of the UK, has subsequently contracted, assumed to be mainly as a result of the restrictions to dependants' visas from January 2024. This market is showing some signs of stabilisation and the sector is forecasting a partial recovery of 18.7% income growth over the forecast period from 2024/25. Again this is predominantly through fee increases. As can be seen in [figure 3](#), the number of international students forecast to study at Welsh universities declines by 1.4% from 2024/25 to 2027/28, recognising geopolitical risks in the UK and in the students home domiciles, and increasing competition from within the UK and internationally.

[Figure 5](#) illustrates how the profile of international student intake studying at Welsh institutions has changed over recent years, driven by a need to diversify to increase student numbers and generate new income streams to mitigate against a static main income source being home undergraduates where the tuition fee was capped with no inflationary increase from 2012/13 until 2024/25, and an inflationary cost base. International students are not a new feature of UK higher education. Institutions report the benefits of a more global outlook on campus and culture as part of the student experience. Research intensive institutions have traditionally cross-subsidised research activity by attracting international students at higher fee levels. The recent growth in recruitment has been to wider markets by a broader cross section of the sector. Much of the growth has been in

<sup>15</sup> For further information on participation of Welsh domiciled students in HE see [Sta/Medr/05/2025: Welsh Higher Education Initial Participation measure: 2016/17 to 2022/23](#)

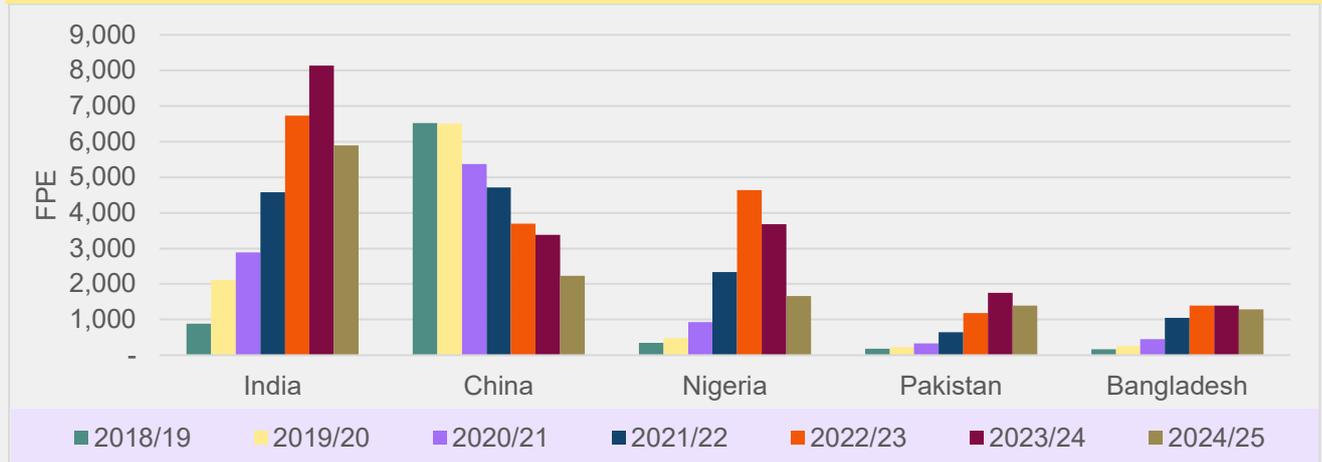
<sup>16</sup> The majority of the students at other HE provision are Welsh domiciled students studying part time at the Open University

<sup>17</sup> Student domicile open data is available at [HE Student Data | HESA](#)

<sup>18</sup> International students are those entering the UK to study, as distinct from TransNational Education (TNE) where students study at campuses overseas.

postgraduate intake. Postgraduate courses are generally one year, so this does not give the same level of income security for strategic planning as is provided by three year undergraduate fees and exposes institutions to higher risk in terms of future income streams. Price sensitivity is a key factor in these increasingly competitive new global markets. International recruitment exposes institutions to geopolitical conditions including uncertainty about UK immigration policy, wider political relations and economic conditions internationally. Diversification of international recruitment is one method of managing geopolitical risks. However it has its own challenges as the increased support and infrastructure needs of this wider diversity within the student population need to be met. [Figure 5](#) clearly shows the more recent decline from the previous growth profiles that had been experienced throughout the UK sector, sharply underlining these risks.

**Figure 5: Top domiciles of international students (FPE <sup>19</sup>) studying at Welsh institutions<sup>20</sup>**



Transnational education, partnerships and online delivery are seen as areas for potential growth. The sector forecast growth from £19.1M in 2024/25 to £33.4M by 2027/28 from these activities. These new income streams are not without risk and take time to establish. Institutions will need to monitor delivery against these targets closely in order to identify and mitigate any slippage in income forecasts. Medr will monitor progress on these financial targets.

### Funding body grants

In line with guidance Medr grants are projected to remain relatively flat.

Funding body grants include the recurrent Quality Research (QR) funding allocation of £83.2M in 2024/25 (2023/24: £89.7M) which supports the underlying research base.<sup>21</sup>

The grant income shown in [figure 2](#) included funding of £77.1M in 2024/25 (2023/24: £66.8M), primarily for further education provision, where further education colleges sit within the group structure of a university. 2022/23 grants were inflated by a £30M one-off capital grant received from a research council by one institution.

<sup>19</sup> Full person equivalent

<sup>20</sup> Student domicile open data is available at [HE Student Data | HESA](#)

<sup>21</sup> [Medr's Funding Allocations for Academic Year 2025/26](#) In order to achieve a balanced budget for AY 2024/25 against a reduced grant settlement from the Welsh Government for FY 2024-25, HEFCW applied a reduction of £11 million pro rata across HEFCW's core recurrent funding lines (Quality Research (QR), Postgraduate Research (PGR), Research Wales Innovation Fund (RWIF), and teaching funding including credit-based, per capita and premia funding). This resulted in a reduction of around 6.3% to each provider's total recurrent funding for AY 2024/25. As core funds are allocated to institutions as block grants, taking a pro rata approach enabled individual institutions to determine their own priorities in deciding how to manage reduced allocations. The funding circular does not apply this reduction to individual lines, though for future years Medr will assume a reduction applied equally across all lines for year on year comparative purposes.

Excluding 2022/23 and 2023/24, which included significant pandemic related funding, higher education grant funding remains around 11% of total income.

## Research activity

Research funding tends to be funded by grants for specific projects. Income is therefore not consistent year on year. In addition large research grants are frequently capital in nature. There is a choice of accounting treatments for capital grants, which impacts the timing of income recognition.<sup>22</sup>

Income from research activity was £236.6M in 2024/25. The forecasts anticipate growth of 7.2% to 2027/28. In 2024/25 approximately 77% of this income was generated by two universities.

## Other income

Other income also projects some growth, largely related to inflation on commercial services. Investment returns have been higher than forecast in recent years. Both investment income and donations and endowment income are forecast to decline, due to an expectation of lower interest rates and declining liquidity that will reduce levels of cash on deposit.

## Expenditure

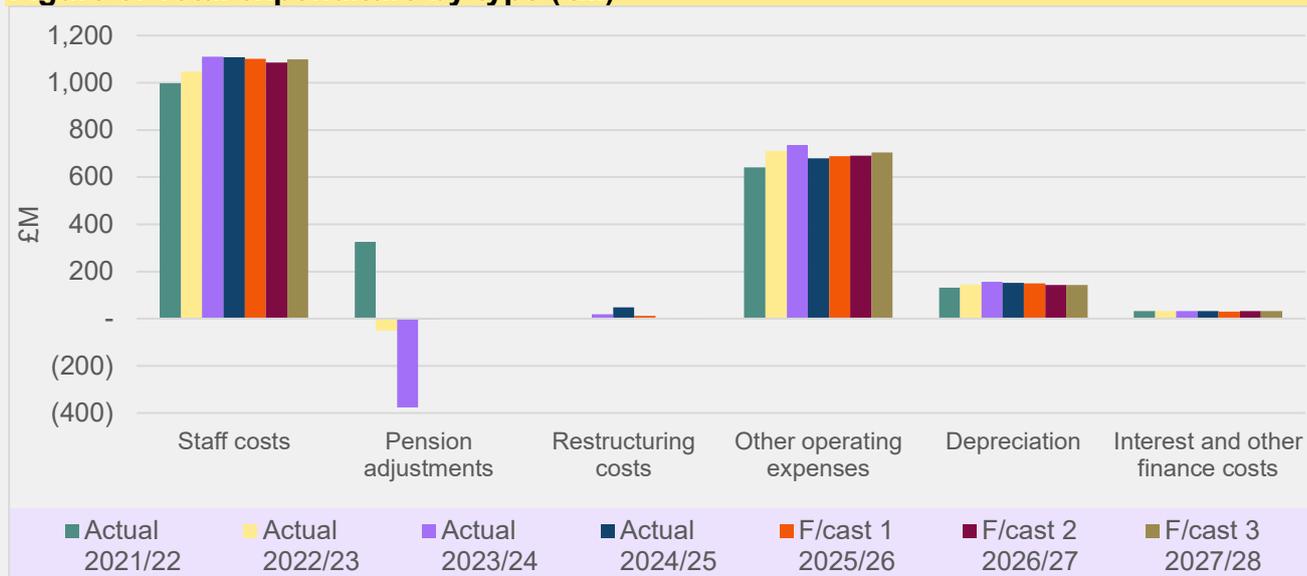
In 2024/25 the higher education sector reported total expenditure of £2,017.8M. Excluding non-cash pension adjustments (£4.5M credit) and fundamental restructuring costs (£48.8M), underlying expenditure was £1,973.5M, a 3.0% reduction on the prior year but increasing to 104.2% of total income due to the impact of sharp income reductions against the longer time required to undertake managed restructuring. The challenging economic outlook means that institutions are expecting to continue to exercise significant controls over costs, with total underlying expenditure forecast to reduce by a below inflationary 2.9% over the period to 2027/28. Future successful cost control will be a key priority for financial sustainability. Cost controls are being implemented with the intention of protecting core teaching, research quality and student support wherever possible.

[Figure 6](#) below shows the reported and projected movement in sector expenditure. Pension provision costs have been extracted from staff costs to highlight the fluctuations caused by the method of accounting for these and therefore to more clearly represent underlying costs.

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<sup>22</sup> *Performance method* - capital grant income is recognised in the income and expenditure account once there is reasonable assurance that any recognition criteria are met. The related expenditure is capitalised on the balance sheet and depreciated over the life of the asset. This means that when these grants are recognised there is significantly more income than costs included in that year. *Accruals method* – matches capital grant income against the related expenditure (depreciation).

**Figure 6: Total expenditure by type (£M) <sup>23</sup>**



## Staff costs

The sector's largest expenditure item is staff costs, with underlying staff costs representing 58.5% of total income in 2024/25. These were around 53% between 2020/21 and 2022/23 and are forecast to reduce back to 55.9% by 2027/28, as the full impacts of the restructurings take effect and income increases. Excluding non-cash pension adjustments and restructuring, staff costs totalled £1,108.9M in 2024/25, increasing by 0.06% compared to the prior year. Full time equivalent average employee numbers reduced by 3.4% in 2024/25. This differential highlights the impact of staff pay inflation and increased pension contributions. Staff numbers are forecast to reduce by a further 12.0% by 2027/28, whilst staff costs are expected to reduce by only 1.0%.

In 2020/21 Welsh universities employed 20,360 full and part time staff<sup>24</sup>. International student enrolments grew rapidly from 16,360 in 2020/21 to 25,955 by 2023/24, with staff numbers increasing to 22,610 over the same period to meet this demand. The subsequent contraction in international student numbers and ongoing inflationary cost pressures, both documented elsewhere in this report, has driven a reduction in staff numbers to 21,970 in 2024/25. Further reductions are expected as sector restructuring continues.

Staff restructuring costs, reported at £48.8M in 2024/25, are forecast to reduce as some institutions have completed the bulk of the mitigating action required following the post pandemic inflation and rapid decline in international fee income. The level of restructuring required is significant, in common with the UK sector more generally. The sector need to balance the resizing of their cost bases with their ability to meet required outcomes, maintain quality and support economic recovery. The sector consider that improved income streams are vital to avoid irreversible changes to the sector in the medium term. Both Medr and institutions will continue to assess the impact of staffing reductions on subject breadth, specialist provision and Welsh language capacity.

Contributions to sector pension schemes cost the sector £137.4M in 2024/25. These costs are forecast to reduce by 9.0% to 2027/28. The Universities Superannuation Scheme (USS) and most Local Government Pension Schemes (LGPS) have returned surpluses in their most recent valuations (March 2023), resulting in a reduction in employer contributions. The Teachers Pension Scheme (TPS) employer contribution rates increased by 5% in April 2024 to 28.68% of pensionable

<sup>23</sup> Underlying expenditure, underlying staff costs and interest payable exclude restructuring and non-cash technical accounting adjustments relating to defined benefit pension scheme provisions

<sup>24</sup> [HE Staff Data | HESA](#)

pay, compared to 14.5% for the main universities superannuation scheme, and between 17% and 22% for most Local Government Pension Schemes. Unlike FE institutions, HE institutions do not get any additional funding to mitigate the cost of increased pension or employers national insurance contributions and current TPS members are legally obligated to continue to provide the scheme.

### Other operating costs

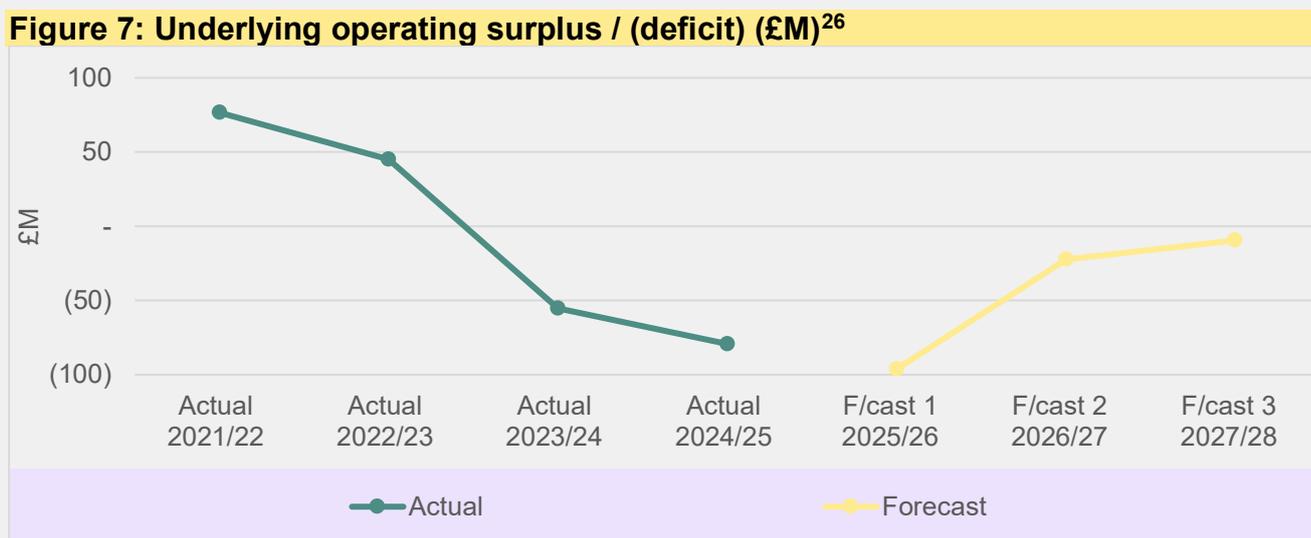
As illustrated in [figure 6](#), other operating expenses are expected to increase marginally over the forecast period, due to inflationary pressures. Inflation is particularly notable in utilities, subscriptions and licences and materials.

The Welsh sector has limited exposure to changes in bank interest rates. Around 85% of borrowing is at fixed rate or interest free<sup>25</sup>. The highest exposure is service concessions where the interest rates are linked to RPI. These represent around 7% of the sector’s total debt. Service concession arrangements are mainly used to develop student residences and the borrowing costs are expected to be funded from the rental income receivable.

### Underlying operating position

Underlying operating position is the operating surplus / (deficit) adjusted for pension provision movements, which are non-cash accounting adjustments, and fundamental restructuring costs, which are assumed to be one-off in nature.

[Figure 7](#) below shows the trend in the underlying operating position of the actual results from 2021/22 to 2024/25 and the forecast position from 2025/26 to 2027/28.



The sector recorded an underlying deficit of £(79.3)M in 2024/25, a significant decline from the £(55.2)M deficit recorded in 2023/24. This is due to a combination of escalating costs and falling international students, in particular following the removal of dependents visas from January 2024. A number of institutions in the sector are currently undertaking significant restructuring to realign cost bases to this reduced level of students. The timing of these varies by institution, but sector level underlying performance is expected to decline further to £(96.2)M before the full impact of

<sup>25</sup> Interest free loans are funding from the Welsh Government for investment in decarbonisation and renewable efficiencies. The repayments are met by the efficiencies generated.

<sup>26</sup> Previously published equivalents added back non-cash pension costs in staff costs, but not in interest payable. The previously published equivalent figures are 2021/22 £65.3M (including £11.3M non-cash pension); 2022/23 £23.7M (including £21.3M non-cash pension); 2023/24 £(57.2)M (including £4.3M non-cash pension)

restructuring savings is reflected in an improvement from 2026/27. The further improvements to 2027/28 also reflect some level of income recovery and / or diversification.

In 2024/25 seven institutions reported underlying operating deficits (2023/24: six institutions). This is forecast to reduce to six in 2025/26, and three institutions in 2026/27 and 2027/28.

The analysis by individual institution in [Annex A](#) indicates the level of variation in underlying financial performance across the sector.

## Forecasting accuracy

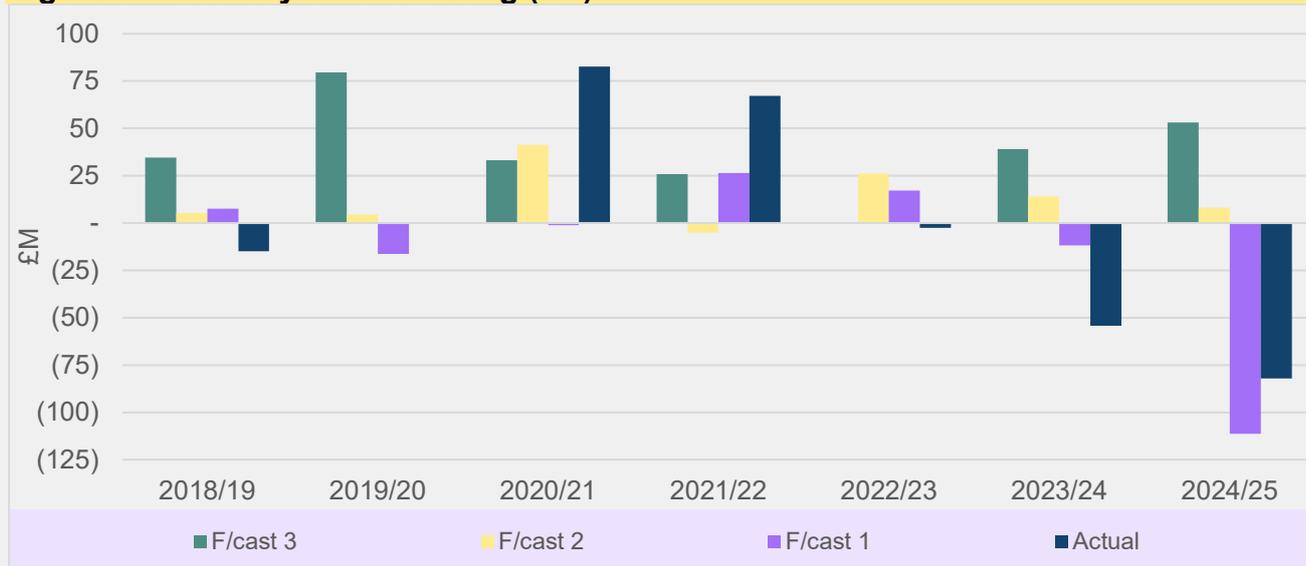
The ability of institutions to accurately forecast is important for both internal institutional decision making and Medr's assurance process.

Over the last few years forecasting has become increasingly challenging. More widely, the uncertainties around the impact and length of the pandemic were followed by economic uncertainties - the Ukraine war impacted supply chain and costs; economic issues in Sri Lanka and then Nigeria impacted student intake; and UK changes in immigration policy impacted international intake more widely. At a more sector-specific level teacher assessed grades impacted progression, student behaviours have changed, with increasing entrance in many institutions via Clearing, and competitor behaviours have changed as pressure increases. There is a higher reliance on one year (postgraduate or CertHE) students, as opposed to the more traditional three years. Forecasts can also be impacted by Medr in-year funding, and the final recognition point for capital grants under the performance accounting method.

The comparison to previous recruitment trends can lead to optimism bias within long term forecasts as well as an understandable and reasonable reluctance to make significant changes to the cost base if income reductions prove to be temporary. This underlines the importance of robust monitoring of progress against targets and regular revision of forecast information based on updated information.

[Figure 8](#) below sets out sector forecasting of underlying operating surplus / (deficit) over recent years. It compares the earliest forecast (F/cast 3) with the later updates (F/cast 2 and 1) and the actual outcome. Equivalent column heights would indicate no change between the earliest forecast and actual outcome. Up until 2019/20 forecasts were generally in line with final outcomes, with some optimism in the out-year (forecast 3). 2020//21 and 2021/22 were impacted by cautious early assumptions on the impact of the pandemic. 2023/24 onwards clearly illustrates the level of challenge to accurately forecast due to the many factors described above and that the forecasts are being amended to reflect these.

**Figure 8: Accuracy of forecasting (£M)<sup>27</sup>**



At a sector level our data indicates that student recruitment in autumn 2025 was broadly in line with 2025 forecasts. Institutions now have at least one further intake during the academic year, so this is not as clear a prediction of final outcome as it might have been previously but still reflects the bulk of student recruitment.

## Solvency and financial resilience

The uncertain climate of recent years has underlined the fundamental importance of having sufficient cash headroom to absorb short term challenges and shocks.

### Liquidity

Liquidity is, broadly, the balance of cash held by a provider at the end of a financial year (in this report) plus investments that can easily be converted to cash, minus overdrafts. 'Net liquidity days' is a measure that represents the number of days from the financial year end for which a provider is able to pay its average day-to-day expenses from the cash that it holds in its bank account and any short-term investments (such as an investment savings account or short-term bond). As such, it is indicative of the size of the buffer a provider has against unexpected financial challenges, and is a key indicator of financial resilience.

It should be noted that cash held by providers may include funding received for specific projects, which is therefore required to be 'ring fenced' for these projects and cannot be regarded as part of longer term working capital. Examples might be funding received specifically for capital expenditure projects. This cash is not separately disclosed and higher liquidity does not therefore necessarily indicate that the entity is cash rich. It is important to note that the liquidity data is taken as a snapshot of projected bank and investment balances at the year-end date. The main period of capital spending at most institutions happens during the summer months, at the start of the new academic year; therefore the available cash not committed to capital spending is likely to be much lower. In addition the funding profile of student loan receipts, the main income stream of the sector, is not evenly spread throughout the year, meaning that institutions are required to hold sufficient cash at the year end to manage significant monthly cash receipt fluctuations.

<sup>27</sup> A shorter forecast period was collected during the pandemic, resulting in 2022/23 not including a F/cast 3.

**Figure 9: Net liquidity (£M and days)<sup>28</sup>**

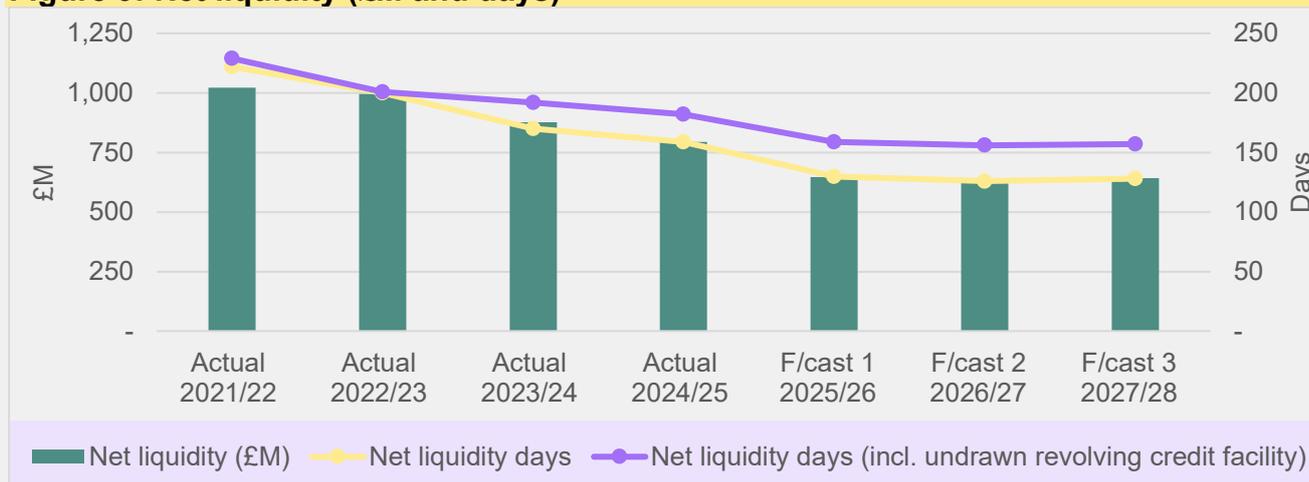


Figure 9 above clearly illustrates that the inflationary pressures and income reductions have and are forecast to erode sector cash reserves. Liquidity days move from 203 days in 2022/23 to 159 days in 2024/25, with a further reduction to 128 days by 2027/28. A proportion of this is monies ringfenced for future investment, so further liquidity decline from the current position is expected.

The institutional position is more variable, with around 85% of cash held in three institutions. All institutions monitor monthly cash movements for at least a forward 12 months, and, as can be seen in figure 9 above, an increased number have arranged revolving credit facilities in recent years to support cash headroom and fluctuations in cash profile due to the nature of student loans company funding. The undrawn element of these facilities is not reflected in the financial statements, so actual cash availability for these institutions is higher than reported.

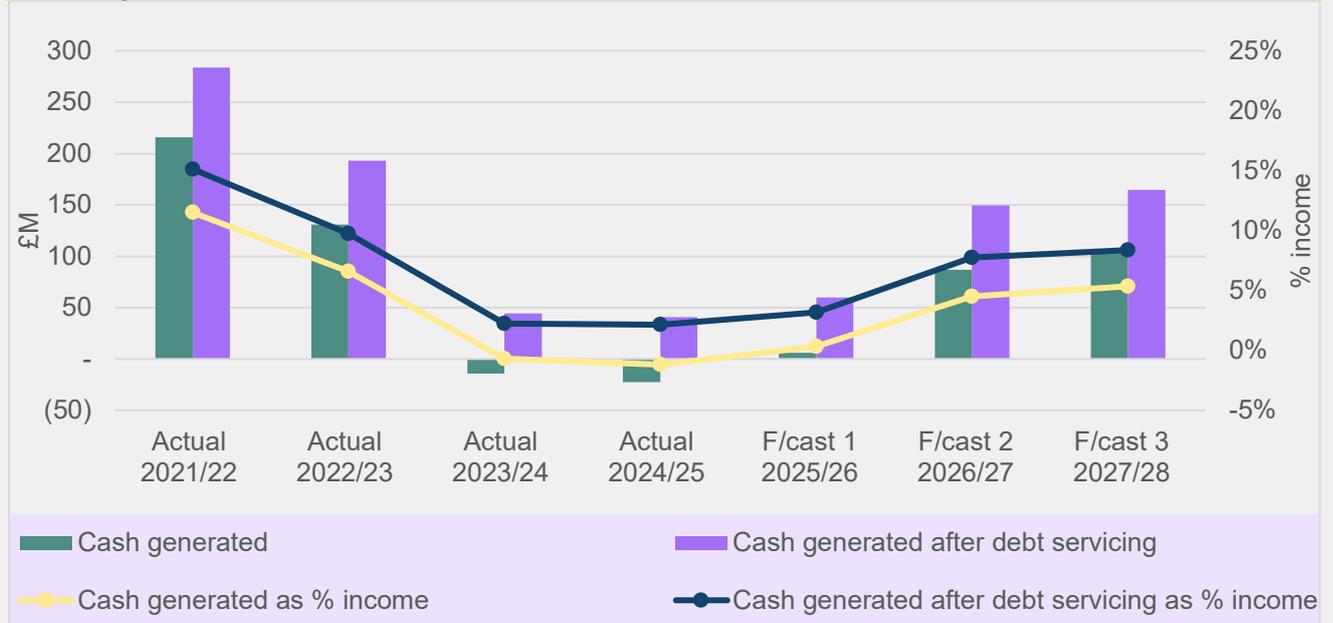
### Net cash in / (out) flows from operating activities

The ability to generate cash from core, underlying activities is vital for the medium and long term sustainability of an institution. For comparability purposes this is stated before the costs of capital invested and debt servicing costs (both interest and capital repayments), as these outgoings are influenced by the individual circumstances of each provider. This records higher values than operating surplus / (deficit), but does not reflect all of the calls on cash in a year. For example it is stated before deducting any capital expenditure undertaken in the year.

In order to ensure future sustainability, institutions should be generating net operating cash inflows in excess of the cost of servicing debt (interest and capital repayments). This ensures that ongoing investment can be made in staff, student experience and facilities to remain competitive, without eroding cash held for investment in capital projects or future proofing. Recent years have underlined the importance of cash headroom to enable institutions to plan strategically under adverse conditions.

<sup>28</sup> Net liquidity is based on underlying cash costs (expenditure excluding depreciation, non-cash pension adjustments (in staff costs and interest payable) and fundamental restructuring costs). Previous published equivalents did not adjust for non-cash pension adjustments in interest payable. The previous published equivalents are 2021/22: 229 days; 2022/23: 201 days; 2023/24: 192 days.

**Figure 10: Net cash in / (out) flows from operating activities (£M and % of total income)**



The sector reported a net operating cash outflow of £(22.5)M for 2024/25 equivalent to (1.2)% of income, compared an outflow of £(14.0)M in 2023/24. The impact of transformational programmes leads to an improvement in 2025/26 to an inflow of £6.1M (0.3% of income) which is forecast to improve to £105.2M by 2027/28. Five institutions reported an operating cash outflow in 2024/25. This improves to four in 2025/26 and recovers to none by 2026/27.

As included in [figure 10](#) above, out of operating cash generation institutions need to service any debt repayments prior to consideration of inward investment. After debt servicing the sector reported an £(85.6)M outflow in 2024/25. This represents a deterioration of £13.1M from 2023/24 and indicates that during both years, whilst absorbing the costs of planned restructuring, the sector generated no discretionary cash for new investments, and any internally funded capital projects were met from cash reserves. 2025/26 is forecast to be similar, with a reduced £(47.5)M outflow. Operating cash is forecast to return to an inflow thereafter with £45.7M, (2.3% of income) being forecast by 2027/28. In general terms a target of around 10-12% of income is deemed reasonable, indicating that further work is required to achieve a long term sustainable footing. Six institutions reported cash outflows in 2024/25. Forecasts indicate that this will improve to one small outflow by 2027/28.

Outflows of net operating cash after debt servicing are manageable over short periods. Institutions with higher cash reserves can sustain these for longer, but they indicate use of reserves to run ‘business as usual’ at a loss which is not sustainable over a long period and reduce cash balances for inward investment, impacting future competitiveness, and future headroom.

## Borrowing

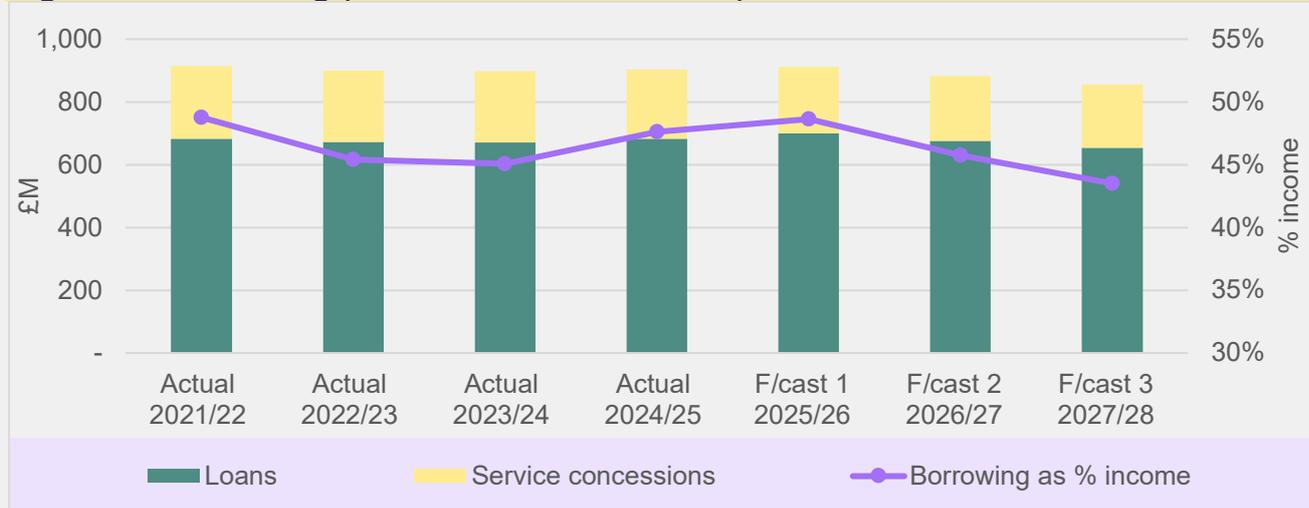
As set out in [figure 11](#) total long-term external borrowing is forecast to reduce gradually from £902.2M in 2024/25 (equivalent to 47.6% of income) to £855.4M (43.5% of income) by 2027/28.

Only one institution is forecasting an increase in borrowing over the period, although institutions will continue to utilise government backed, low interest borrowing such as Salix and financial transaction capital to support progress towards decarbonisation where these are available and not restricted due to other borrowing covenants. Expenditure associated with these low interest government borrowings is not undertaken without the external funding, so these are generally excluded from forecast assumptions until confirmed.

Recent new sector borrowing has been in the form of revolving credit facilities, to support the fluctuations in cash profiles across the year, in addition to government backed schemes.

This level of borrowing remains significantly above the UK sector average (2023/24: 29.8% of income<sup>29</sup>). This reflects the structure of borrowing in Wales, which is weighted towards long-dated, predominantly fixed-rate instruments. For example, 47.2% of the total Welsh sector borrowing comprises a public bond<sup>30</sup>. All public bond funding within the Welsh sector has an associated ring-fenced investment fund to facilitate repayment. A further 24.3% comprises service concession arrangements<sup>31</sup>.

**Figure 11: Borrowing (£M and % of total income)**



Where borrowing rises in the sector, the cost of interest and loan repayments can increase. This rise in 'fixed costs' could put pressure on any institution that fails to increase income and / or to constrain other costs to generate sufficient operating cash to cover the cost of debt, as referenced in [net cash in / \(out\) flows from operating activities](#) above. The Welsh sector is largely protected from this risk with 82.4% of interest on borrowing being at fixed rates, at least over the medium term, and 48.9% fully fixed over the term of the borrowing. The sector annual cost of debt in 2024/25 was £63.1M (2023/24: £58.5M). In addition rises in inflation may put pressure on bank base rates, impacting the cost of any future borrowing.

## Capital expenditure

Sector capital investment in 2024/25 was £137.9M, a reduction of £36.5M on the prior year. As illustrated in [figure 12](#) this is forecast to decline further after committed spend in 2025/26.

With only limited capital grants available, Welsh HE institutions need to generate surpluses and operating cash inflows to sustain the level of capital investment in facilities needed to attract students and staff and ensure their long-term sustainability. Increased surpluses provide the positive cash flow needed to fund future investment and meet finance costs, including the repayment of borrowings. In 2024/25 in order to fund capital expenditure, the sector sold existing assets for £1.6M; committed to new borrowings of £34.2M (largely preferential Welsh Government FTC<sup>32</sup> loans); and received capital grant funding of £51.9M, raising a total of £87.7M. The remaining capital expenditure of £50.2M was required to be funded from cash reserves as the sector reported a cash

<sup>29</sup> UK comparators are derived from the average [HESA finance data](#) for institutions required to submit a [TRAC](#) return.

<sup>30</sup> A public bond is long term debt. It is repayable in full at the end of the bond term and subject to a fixed interest or coupon rate, paid annually.

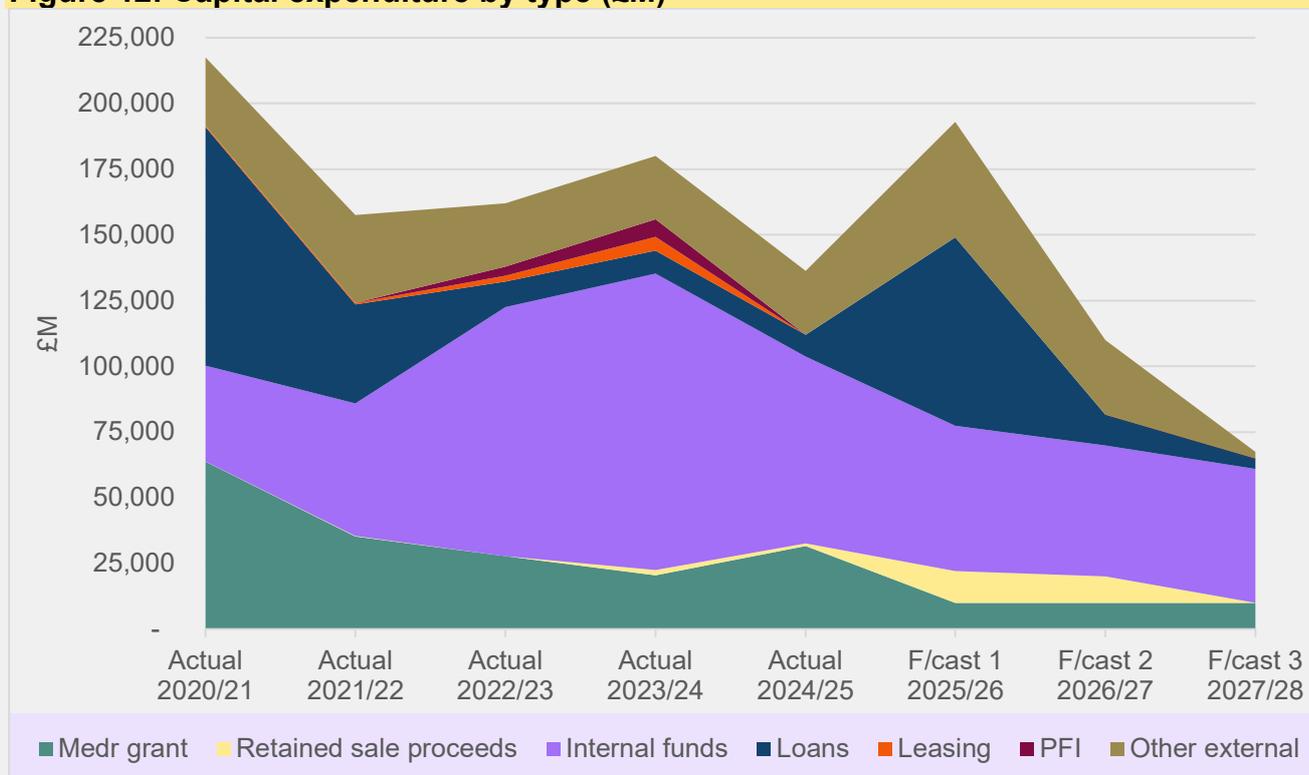
<sup>31</sup> Service concession arrangements are mainly used to develop student residences and the rental income receivable contributes towards their borrowing costs. Unlike a term loan the liability recognised is an accounting adjustment and does not reduce over time, although it can fluctuate where nominations agreements are varied.

<sup>32</sup> Financial Transaction Capital loans – government loans at preferential treasury loan rates for decarbonisation projects

outflow from underlying operating activities in the year. [Figure 12](#) shows the funding of capital purchases in recent years.

Over the forecast period institutions will continue to reassess their capital investment plans in the light of economic uncertainty, increasing construction costs (due to price inflation), changing work patterns and their ability to fund planned investment levels by generating additional cash or increasing borrowing. As part of reducing expenditure institutions are also working to improve space utilisation. Where projects are funded by fixed grants, institutions either have to curtail their ambition, source alternate funding or increase internal contributions.

**Figure 12: Capital expenditure by type (£M)**



Over the last few years, providers have temporarily paused or halted capital expenditure and infrastructure improvements to protect operational expenditure, and to preserve cash to provide headroom against expected future challenges. A number of institutions are limiting internally funded capital expenditure to business critical only. In the short term reductions in planned maintenance will impact backlog maintenance, leading to higher costs of unplanned maintenance.

Over the medium to long term, investment in infrastructure, facilities and equipment is essential, and underinvestment in this area could lead to increased financial sustainability concerns in the future, especially where more urgent and significant maintenance investment is required, or where the quality or suitability of facilities, equipment and infrastructure restricts operations or necessary strategic developments. However, the ongoing financial pressure on providers may lead to changes to capital investment plans, with providers reducing, delaying or cancelling projects. Institutions failing to invest sufficiently in this area risk finding themselves in a weaker market position and at higher risk of financial instability. In addition, significant capital investment will be required to meet carbon net zero targets.

### Pension liabilities

Pension provisions represent the current value of future calls on the institution in respect of pension costs. These change over time as stock markets, mortality and demographic assumptions and other inputs vary. These provisions unwind over a long period of time. The sector pension provision at July 2024/25 was £26.1M, and is expected to remain at around this level. The scale of volatility is clear

by the significant reduction in pension provisions from a high of £773.9M in 2020/21 to the current provision in 2024/25.

The valuations of defined benefit schemes<sup>10</sup>, such as the Universities Superannuation Scheme (USS), local government pension schemes (LGPS) and university own schemes, are heavily dependent on a snapshot in time of the financial markets. Therefore, whilst the most recent valuations of these schemes presented a more positive outcome, these continue to represent a significant risk to the sector, and one over which they exercise limited control. Uncertainty in financial markets, further problems with valuations and the short term assessment of measures required to remedy long term deficits identified as a result of market fluctuations are likely to be ongoing. The fluctuations in pension scheme valuations and the change in the cost of future pension benefits over recent years demonstrate the inherent volatility in the outcomes of the sector's pension scheme valuations, which pose significant uncertainty and risk to ongoing sustainability.

In addition the sector is exposed to contribution rate changes in unfunded public sector schemes such as the Teachers' Pension Scheme (TPS) and the NHS Pension Scheme.

As pension contributions are calculated as a percentage of staff salaries, the calculation of both present and future pension costs is impacted by pay settlements.

## Transparent approach to costing (TRAC)<sup>33</sup>

Universities are complex organisations. Much work has been done to understand the level of cross funding between, and the financial contributions from, different activity streams.<sup>34</sup> Most of this is based on TRAC data. TRAC is a process of taking institutional expenditure information from consolidated financial statements, and then applying cost drivers (such as academic staff time allocation and space usage) to allocate these costs to academic departments and to specific activities. A margin for sustainability is added to costs, to reflect the cost of maintaining infrastructure, and the return required for finance and investment, based on the average of six years actual and forecast information for each institution. Current forecasts include significant deferral of investment in order to preserve cash headroom, so this margin may currently be understated against the full investment required for longer term financial sustainability.

TRAC provides a helpful visual of the interaction of the various activities of the sector. [Figure 13](#) sets out the recovery of full economic cost for each main TRAC activity for the Welsh sector.

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<sup>33</sup> Transparent Approach to Costing - [TRAC - a guide for senior executives and governing body members](#)

<sup>34</sup> [UKRI Data Pack on Research Financial Sustainability Academic Year 2023-24](#)

**Figure 13: TRAC recovery of full economic cost (fEC)<sup>35</sup>**

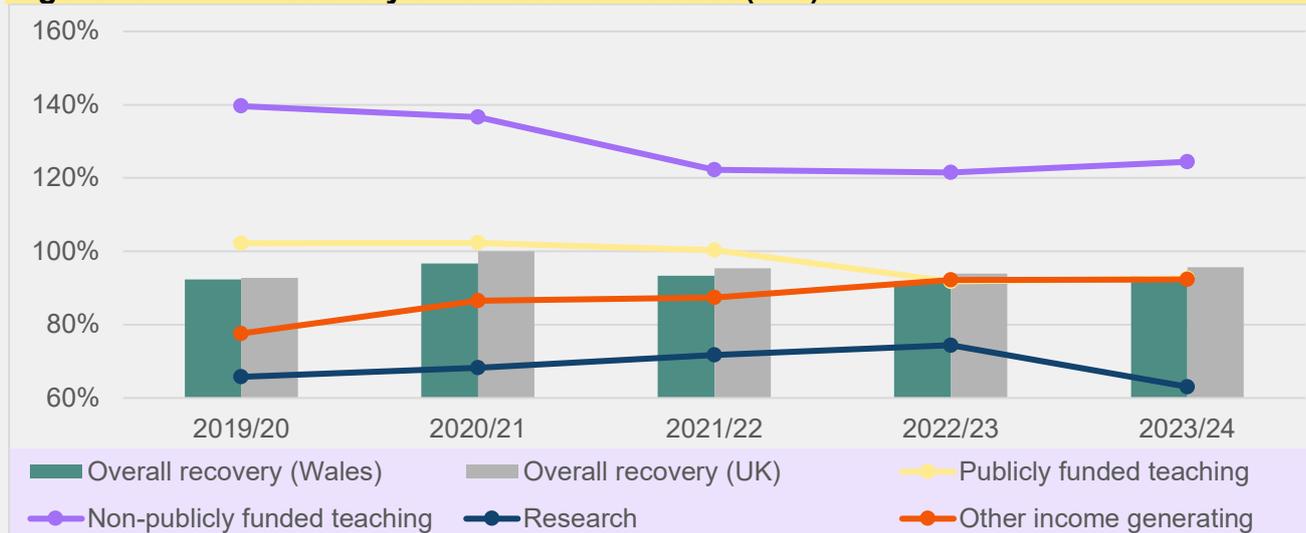


Figure 13 demonstrates that, including the margin for sustainability, the sector has been operating at deficit overall.

Publicly funded, broadly UK student, teaching recoveries have declined over the period into a deficit position with the impact of increased inflation on a static fee cap.

Non-publicly funded, broadly international student, teaching has historically had a very interconnected relationship with research. Leading institutions are ambitious for a presence on the global stage. An international research reputation impacts the international students that an institution can attract, which in turn assists with the sustainability of research activity because of the cross subsidy it enables. Therefore the TRAC deficit reported for research must be viewed in the wider strategic context of the institution. This includes the long-term role of research in supporting reputation, innovation, talent attraction, economic impact, student recruitment and business relationships.

Moreover, Welsh international student recoveries have in recent years been impacted by student recruitment growth from more price sensitive, newer markets, coupled with rising costs of agents fees and student support for multiple domiciles of students, and the reduction in volume of international recruitment, which will impact further in 2024/25. This is happening at a time where cross subsidy is becoming a requirement for publicly funded teaching as well as research.

Research recoveries for projects funded by large public sector research funders such as UKRI are designed to be 'dual funded', with 80% of costs funded and a 20% contribution by the institution, based on the costing of the bid application. For funding from charities, typically in medical research, a larger contribution is expected from the institution. The institution's contribution is typically met through income from international student fees or from unhypothecated<sup>36</sup> Quality Research ('QR') funding provided by Medr. QR funding is designed to support and encourage baseline research and innovation. It provides stability, enabling research staff to be retained between grant funded projects, funds early stage exploratory research, or research that an institution considers strategically important, and supports underpinning infrastructure such as research management offices and training, as well as contributing towards the full costs of project grants. Medr's unhypothecated research funding also includes an element to support training of postgraduate researchers.

Both the UK and Welsh Governments identify research and innovation as a driver of economic growth. However, in Wales QR allocations have been flat or reduced over the last 5 years,

<sup>35</sup> UK data can be found [TRAC data - 2023-24 - Office for Students](#). Welsh data is confidential.

<sup>36</sup> not tied to specific projects or prescribed activities within the broad context of research funding

representing a reduction in real terms. QR funding has increased in the other UK nations over the same 5 year period, giving Welsh institutions a disadvantage in the UK market for competitive project grants.

As can be seen in [figure 13](#) the total recovery, including QR is 63% in 2023/24, in part due to inflationary pressures which are not accounted for in bid costings. The current cost cutting exercises will impact institutional prioritisation and choices about what research each can afford to support, potentially reducing the scope of research, opportunities for early career researchers, and thereby the future research pipeline. The impact of this will take time to become fully evident and further time to reverse the decline.

Other income generating clearly shows the impact of the pandemic on footfall and commercial services. On an ongoing basis cost of living pressures and high inflation also impact institutional ability for full recovery in these areas.

## Annex A: Institutional headlines<sup>37</sup>

**Figure 14: Summary of Welsh university headlines**

		Aberystwyth	Bangor	Cardiff	Cardiff Metropolitan	Swansea	South Wales	Trinity Saint David	Wrexham
		£000	£000	£000	£000	£000	£000	£000	£000
Total income	2024/25	127,435	157,930	634,741	148,589	333,645	221,611	209,777	60,431
	2023/24	126,313	170,118	649,068	144,860	381,695	242,912	202,701	62,409
Headline operating surplus / (deficit)	2024/25	(5,147)	(18,878)	(57,279)	(3,860)	(39,385)	(1,186)	1,695	425
	2023/24	26,388	28,862	137,437	(3,038)	82,916	(1,312)	30,596	1,148
Operating surplus / (deficit) excluding non-cash pension adjustments <sup>38</sup>	2024/25	(3,273)	(18,994)	(60,076)	(4,221)	(38,485)	(3,242)	(612)	775
	2023/24	(10,701)	(19,072)	(21,017)	(6,615)	(12,747)	140	(4,002)	1,378
Underlying <sup>39</sup> surplus / (deficit)	2024/25	(2,181)	(13,939)	(35,727)	(673)	(30,963)	1,308	1,209	775
	2023/24	(8,603)	(18,673)	(21,017)	(5,236)	(4,286)	4,799	(3,543)	1,378
Net cash in / (out) flow from operating activities	2024/25	11,352	(3,888)	(12,364)	4,836	(15,630)	(9,845)	4,660	(1,650)
	2023/24	429	5,727	1,839	(977)	(18,639)	4,707	(3,627)	(3,482)
Net cash in / (out) flow after debt servicing	2024/25	2,961	(12,978)	(25,206)	1,805	(34,434)	(15,154)	(976)	(1,650)
	2023/24	(3,229)	(3,572)	(12,580)	(2,740)	(37,001)	(1,261)	(8,651)	(3,487)
Cash and equivalents (including short term investments)	2024/25	9,979	15,824	415,059	44,182	97,510	169,244	18,191	25,097
	2023/24	7,305	33,480	426,496	42,882	125,722	199,511	16,578	24,118
External borrowing	2024/25	65,807	84,102	443,687	16,454	216,179	37,463	38,553	-
	2023/24	69,781	88,474	427,379	18,406	214,588	40,777	32,724	-

<sup>37</sup> Further detail of published financial performance of individual institutions may be obtained from their websites or from [HE Finance Data | HESA](#)

<sup>38</sup> Non-cash pension adjustments are technical accounting adjustments included within staff costs and interest payable.

<sup>39</sup> Underlying' is defined as excluding both non-cash pension adjustments (in staff costs and interest payable) and fundamental restructuring costs.

**Figure 15: Summary of Welsh university financial metrics**

As % of total income		Aberystwyth	Bangor	Cardiff	Cardiff Metropolitan	Swansea	South Wales	Trinity Saint David	Wrexham
Operating surplus / (deficit) excluding non-cash pension adjustments	2024/25	(2.6%)	(12.0%)	(9.5%)	(2.8%)	(11.5%)	(1.5%)	(0.3%)	1.3%
	2023/24	(8.5%)	(11.2%)	(3.2%)	(4.6%)	(3.3%)	0.1%	(2.0%)	2.2%
Underlying surplus / (deficit) <sup>40</sup>	2024/25	(1.7%)	(8.8%)	(5.6%)	(0.5%)	(9.0%)	0.6%	0.6%	1.3%
	2023/24	(6.8%)	(11.0%)	(3.2%)	(3.6%)	(1.1%)	2.0%	(1.7%)	2.2%
Underlying staff costs	2024/25	56.3%	60.0%	59.7%	65.1%	59.8%	57.5%	50.4%	56.6%
	2023/24	59.6%	58.5%	57.5%	67.3%	52.1%	53.4%	51.1%	49.3%
Other operating expenditure	2024/25	30.6%	35.1%	36.2%	26.6%	38.1%	34.7%	42.5%	37.7%
	2023/24	32.2%	38.9%	36.1%	29.0%	38.6%	37.6%	43.2%	43.6%
Net cash in / (out) flow from operating activities	2024/25	8.9%	(2.5%)	(1.9%)	3.3%	(4.7%)	(4.4%)	2.2%	(2.7%)
	2023/24	0.3%	3.6%	0.3%	(0.7%)	(5.6%)	2.1%	(1.7%)	(5.8%)
Net cash in / (out) flow after debt servicing	2024/25	2.3%	(8.2%)	(4.0%)	1.2%	(10.3%)	(6.8%)	(0.5%)	(2.7%)
	2023/24	(2.5%)	(2.3%)	(2.0%)	(1.8%)	(11.1%)	(0.6%)	(4.1%)	(5.8%)
External borrowing	2024/25	51.6%	53.3%	69.9%	11.1%	64.8%	16.9%	18.4%	-
	2023/24	54.8%	56.0%	67.3%	12.4%	64.3%	18.4%	15.6%	-
<b>Other metrics</b>									
Net liquidity days <sup>41</sup>	2024/25	32	37	244	117	107	300	34	161
	2023/24	22	72	251	111	130	327	31	152
Net liquidity days including undrawn revolving credit facilities	2024/25	51	96	279	117	135	300	34	161
	2023/24	31	125	287	111	155	327	31	152

<sup>40</sup> Underlying excludes both non-cash pension adjustments (staff and interest payable) and restructuring costs

<sup>41</sup> Net liquidity is expressed as a number of days of underlying expenditure (excluding depreciation, restructuring and non-cash pension adjustments)

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