

**Children, Young People and Education Committee  
Request for Information – 3<sup>rd</sup> July Developments in the Higher Education Sector**

**Response from the University of South Wales  
April 2025**

**1. An overview of your assessment of the financial challenges facing University of South Wales, with reference to key data that underpins this assessment (e.g. current and projected student numbers, take-up rates, levels of reserves, etc) for both the coming financial year and the longer-term picture**

High Level Assessment

Whilst the University (including its subsidiaries) has produced small surpluses over the medium term, the financial year 2024/25 was projected to be challenging due to the increased costs of delivery in the context of a largely flat fee level for 12 years. This was prior to changes in immigration policy which has provided additional and significant challenge. On current and historical business model, it is not possible to generate a surplus with the relationship of cost to income remaining. Our projected end of year position for this financial year will be a deficit, but this has been reduced by actions undertaken as outlined in our response to Question 3. This deficit will grow without further action and without underlying contributing factors, particularly the low participation rate into Higher Education in Wales, being addressed at a system level.

Current and Projected Student Numbers

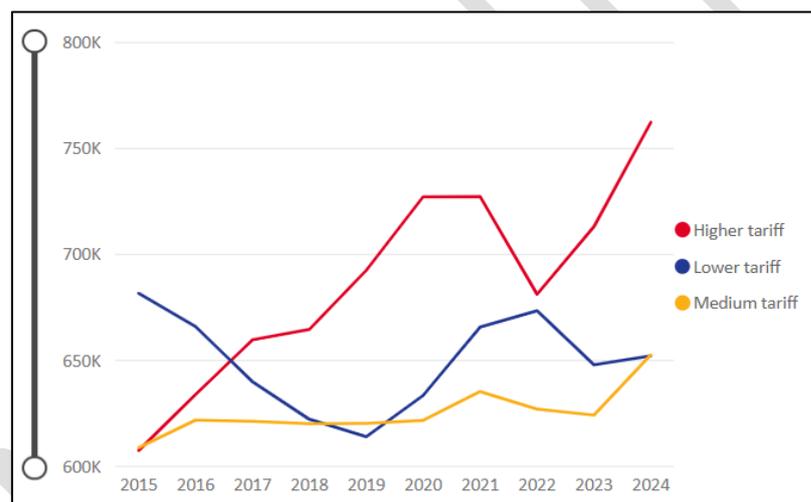
Our current student numbers are publicly available via HESA. In summary we have seen challenges in our FTUG UK recruitment and falls in international recruitment. It is important to note that the University had always planned to grow its international student numbers over time as we under indexed in this recruitment pipeline.

Our future student number plans are at this stage, unapproved by our Board of Governors and as such will not form part of this response. In headline terms, as an institution we are planning for growth, in particular within the FTUG UK market, but there are number of risks relating to trends:

- **challenges in widening participation in Wales.** USW is the largest recruiter of students from Quintiles 1 and 2 of the Welsh Index of Multiple Deprivation (51% of Welsh domicile students in 22/23 from Q1 and 2 and 27% from Q1). The proportion of 18-year-olds applying from WIMD Q1 decreased to 20.1% for 2024 entry, while those from Q5 increased by 0.3%. There remains a significant gap of circa 30 percentage points between Q1 and Q5. Disadvantaged students in Wales are also less likely to access university, compared to other parts of the UK. USW has a significant track record in this market. The university is witnessing real decline in students moving from level two to level three through its HE in FE partnerships and our progression from level five to level six has also declined. This shows that there is not a substitution effect of HE to FE, but an overall decline in participation in institutions that traditionally serve underrepresented students.
- **increased numbers of Welsh domicile students studying in England.** USW's students are more likely to stay in Wales following graduation. In 2021/22's Graduate Outcomes Survey 74.6% of our UK graduates who responded to the survey, indicating they are in a form of employment, are undertaking that employment within Wales. This compares with 58.4% of graduates from Welsh HEI's remaining in

Wales post course completion to undertake employment opportunities. A recent analysis of [movement](#) which examines the spatial redistribution of undergraduates across the United Kingdom resulting from moves to and from university shows that the South East Wales cluster 'was much weaker in terms of attracting newcomers, with fewer staying on after moving there for university than for Cluster 2 and far fewer repeat movers than both there and London'.

- **reductions in demand from students over the age of 21** USW has a higher proportion of students from these age groups – 77% of its FTUG population in 2022/23 compared to a Welsh average of 67%. In addition to the above we are the largest provider of public sector graduates in nursing, midwifery and allied health, education and policing. As a consequence, we have a disproportionate impact from these markets.
- **increased competition from high tariff universities** who did not historically complete in the same market as USW impacting on medium and low tariff universities. The following shows the change in application levels over time for all age groups. Higher tariff HEIs accepted 13% more 18 year olds for 2024 entry than 2023.



Source: UCAS End of Cycle 2024

Our future number plans will continue to add challenges to our financial sustainability without the action described in section three. Action will likely only have short to medium term impact without policy change. USW is key to driving widening participation in Wales and providing graduates for the workforce of the future in Wales. As a consequence, these patterns of demand and lowering participation, if not addressed, will have an impact on the supply of highly skilled talent and human capital into the Welsh economy. The issue here isn't just one of educational attainment, but of economic growth.

### Reserves

As noted by Universities Wales Universities:

*“ ‘reserves’ are not unused cash or liquid assets set aside for dealing with emergencies. In accounting terms, it simply means the total ‘net assets’ that a university has accumulated. The majority of the assets which make up the reserves are essential for the continued operation of the university. Reducing those assets means reducing the activities, services or income streams they support, which in turn has an impact on*

*universities' future income generation. The value of the assets recorded in the accounts may often be considerably less than the assets would achieve at open market, due to the specialised nature of those assets: the assets are normally accounted for at original cost or value to the institution as opposed to disposal value.*

*In general, using up reserves to address recurrent problems with income/surplus levels is not a prudent financial management strategy. Unless the use of reserves results in the university having a more viable business it will simply mean that its assets continue to be eroded, and potentially very rapidly.*

*Banks and lenders and charity rules typically require universities to keep certain levels of reserves. In addition, around 7% of reserves in universities are 'restricted' which means they can't be used for any other purpose.*

*Although it varies by institution, the overall level of borrowing by the Welsh university sector is already comparatively high: in Wales, borrowing is 49% of income compared to 34% for the UK as a whole. Covenants made as part of loan agreements are likely to limit the use of reserves by institutions."*

All of the above applies to the University of South Wales. In particular, the ability for the university to invest in its future is dependent on cash balances and ability to borrow. Without investment in our digital and physical estate, the University will remain challenged in relation to the competition in the market. It will also not be able to invest in the physical and digital infrastructure required to change the relationship of cost to income and be able to run the University more efficiently.

## **2. Details of any specific policies at Welsh- or UK-government level that have significantly impacted on University of South Wales's ability to operate sustainably**

The following is not an exhaustive list and has been well rehearsed:

### **Income Challenges**

- Welsh Government policy in relation to funding of Welsh domicile students studying outside of Wales

It is accepted that the secondary legislative powers provided to the Welsh Government differ to those in Scotland which limits the ability for Wales to have a different model of funding. There are challenges in cross border flows with initiatives such as Seren etc. and over the past five years, funding for Welsh domicile students in England has increased with a decrease in funding for Welsh domicile students studying in Wales.

The following table shows the increased proportion of students from Wales studying outside of Wales.

Country	2019/20	2020/21	2021/22	2022/23	2023/24
England	23,395 (38.1%)	23,865 (38.1%)	24,420 (39.5%)	24,445 (40.7%)	24,170 (42.4%)

Wales	37,485 (61.1%)	38,255 (61.0%)	36,815 (59.5%)	35,005 (58.3%)	32,205 (56.5%)
N. Ireland	40	55	60	70	95
Scotland	475	510	535	550	570
	61,400	62,680	61,830	60,070	57,040

Source HESA (FT UG Students)

- Changes in funding

The introduction of the £9,000 fee in 2012 changed the landscape of higher education for future years. Previous regimes allowed for differences in cost to deliver high-cost subjects such as STEM. The new regime levelled the income base for different subjects, which depending on subject mix, had a lesser or greater impact on university finances. It is worth noting that the Browne Review (Independent Review of Higher Education Funding and Student Finance) recommended no fee cap. The coalition government at the time did not adopt this recommendation and placed a cap of £9,000.

- Gap in funding in comparison to England (£9,000 to £9,250)

The maximum fee for HEIs in England rose from £9,000 to £9,250 per annum in 2017/18. Wales did not make a similar decision until February 2024. This underinvestment in comparison to England could be argued to have provided some competitive advantage over the border, enabling additional investment in digital and physical estate and increasing competition leading to increased cross border flows of students.

- Lack of Index Linked fees

The fee cap has in effect reduced the ability of universities to mitigate increasing costs through changing income. Inflation calculations confirm that a £9,000 fee in 2012 would need to be £13,500 in 2025 to cover increased costs.

- Changes in International Visa Regulations

A number of changes in international visa regulations have taken place in the past few years. Firstly, the reintroduction of post study work visas had a positive impact on international student recruitment in the UK, with increased enrolments at USW, in particular in postgraduate markets. Conversely the removal of the dependents visa for non-research degrees has had a negative impact, with student number projections reducing. It is also clear that any future changes to the graduate route and potential increases in salary thresholds for post study work would have a further effect of dampening demand, particularly in Wales given differential salaries across the UK.

- Underfunding of Research and Innovation and associated subsidy and the impact of Brexit

The Royal Society analysis of Research and Innovation funding in Wales notes:

- 4.7% of the UK population is based in Wales, yet 2.4% of the R&D spend in the UK takes place in Wales
- HE Funding (HEFCW 21/22) was provided at £35.65 per capita compared to a UK average of £46.78 per capita

- Research Council funding (2020/21) was provided at £27.12 per capita compared to a UK average of £56.11 per capita

Recovery of overheads has reduced at USW over time and with increased budgetary pressures the ability to subsidise research and innovation has reduced. There are some variations in the challenge amongst subject areas, but largely the challenge focusses on insufficient Research and Innovation funding, and a reduction in the ability of the University to contribute to research related staff costs through core budgets. This is due to increased salaries, pension contributions, National Insurance costs and the diminished income. Significant funding streams that would have supported research have been lost in recent years relating to the ending of European Regional Development Fund (ERDF) and European Social Fund (ESF) Research and Innovation programmes, and a reduction in Government Research and Innovation funding streams, which historically provided significant funding to the University. This is a sector problem affecting all the universities in the UK. Although staff are actively engaged in seeking alternative sources of funding, and major successes have been achieved, these funding sources do not typically cover high %FTE allocations for Principal Investigators and even Co-Investigators and, in addition, cost recovery has fallen from circa 80% to 56%. Therefore, our ability to cover research costs cannot be sustained at current levels. Our approach has been to close the gap within our strategy, our critical mass and our funding sources.

R&D spending by industry has also changed. In Wales, with SMEs, ability to engage with HEIs and Research has fallen. With few big industries, and those we have changing (Tata Steel) investment has fallen. The Levelling up funding hasn't had a positive impact and the loss of European Social Fund has resulted in a substantial reduction in KESS studentships with industry.

- High-cost subjects

The funding model prior to 2012 allowed for a differentiation between the funding provided for subjects. ASCs enabled STEMM to receive higher levels of funding than areas such as business and the humanities. Medr provides for differential funding through Expensive Subject and High-Cost Subject Premiums. USW has access to both Expensive Subject funding (for the Royal Welsh College of Music and Drama) and Higher Cost Subject funding for its extensive STEM provision. There are challenges in the funding model:

- 'The subjects included in the higher cost subject premium are those where the cost of provision is estimated to be higher than the average tuition fee assumed received by providers in Wales, according to work done in AY 2019/20'. This has not been reviewed for some time and it is clear that all subject delivery is now higher than the average tuition fee, which adds pressure to STEM. USW has made difficult decisions to withdraw from Chemistry, Geography, Mathematics and Geology in the time period since 2019/20. Other areas of its STEM provision run at an increased risk as the gap between cost and income increases.
- The model in Wales is applied per credit, the model in England per student. For STEM an additional £6.57 is applied per credit, which equates to £788.40 for students completing 120 credits in 2024/25. In England a 'scaling factor' of 1.158 is applied which for STEM (Group B) equates to £1,737 per student FTE in 2024/25.

- The model in Wales for 'higher cost subjects' does not include provision in the performing and creative arts and media studies, the model in England does.
- In 2024/25 funding for higher cost subjects in Wales was retained at the previous year's level. The Office for Students increased funding by 2.6% for Price Group A (clinical years of study for medicine, dentistry and veterinary science, and undergraduate pre-registration dental hygiene and dental therapy courses), B (Laboratory-based science, engineering and technology subjects, and pre-registration courses in midwifery and certain other allied health professions) and C1.1 (Intermediate-cost subjects in computing and information technology, archaeology, and pre-registration courses in nursing) and by for C1.2 (Intermediate-cost subjects in performing and creative arts and media studies) by 3.8%
- Funding levels (£6.57 per credit for STEM and £3.07 for IT and Computing) mean that year on year the need to increase additional student numbers to manage cost increase is required.
- Funding is only provided on completion and therefore does not allow for students who do not complete credits.

The expensive subject funding for the Royal Welsh College of Music and Drama does not meet the cost of delivery which has led to recent difficult decisions around continuation of subsidised provision. When comparing conservatoire funding in Wales (RWCMD is the only institution of this type in Wales):

- Between FY20/21 and FY22/23, public and grant funding for UK conservatoires rose by 31.3% to £7.3m, while RWCMD's funding remained static at £3.6m.
- RWCMD receives 42% less funding than the UK conservatoire average, largely due to lower per-student funding in Wales compared to England.
- On a per-student basis, RWCMD receives £4.2k, significantly lower than the £8.6k average in England and Scotland. The [Murphy Report](#) recommended that funding in Wales should be aligned to that provided in England.

- Capital Funding

Medr provides Capital Funding on an annual basis. The funding model has two principles; firstly that a minimum amount is provided to all HEIs (£750k in 24/25) and secondly an amount is provided on a pro rata basis based on student FTE. Due to the minimum threshold, USW has 18% of the student FTE studying in Wales but receives only 14% of the funding. Whilst in England there is both a formula approach to allocation combined with a bidding process, the formula model allows for subject mix – FTE weighted by price group, multiplied by specialist provider weighting plus a weighting applied relating to the proportion of students with declared disabilities. The model in England therefore considers not only the higher capital costs of delivering STEM but also the additional costs in supporting students with disabilities.

- Challenges in widening access, higher costs of student support

Funding is provided by Medr for Access but only for part-time students. The Fee and Access Plan as a condition of registration requires HEIs to spend (approx. 17% of their FTUG fee income) on equality of opportunity and promotion of HE, so funding is protected and accounted for through this regulatory process. In addition to this HEIs in Wales have been provided with additional support for both student wellbeing and

for employability which has enabled investment in these key areas. With an increasing challenge in participation in Wales, and with this focussed starkly on learners from Quintile 1 of WIMD there may be an urgent need to review how this important area is funded. It is expected that new conditions of registration will consider this issue. The OfS model allows for funding for FT students ‘who are deemed to be most at risk of withdrawing from their studies because of their qualifications and age profile, and who therefore require additional investment to ensure their retention and success’. The model is evidence based and linked to age, qualification aim and entry qualification. An additional supplement is provided where providers have the most students from under-represented areas.

- Part-time fees and subsidy

As costs of delivery become more and more challenging a university’s ability to provide part-time education becomes increasingly difficult.

Funding should be available to all intensities of study but is currently limited to students studying at 25% intensity or above. At present there is also a clear subsidy from FT to PT delivery which is unsustainable in the future. The challenge therefore is how the sector bridges the gap for learners who may not be able to access financial support.

### Expenditure Challenges

- National Insurance

The recent policy change in relation to National Insurance will cancel any benefit provided by the raising of the tuition fee maximum to £9,535. The Higher Education Sector has produced its [own estimate](#) of the cost of the change, saying that it “will add around £372m to the sector’s pay bill”. This almost exactly wipes out the benefits to the sector of the decision to increase tuition fees, which the IFS estimates at £390m.

- Pension Costs

Pension costs have been unstable in HE for some time. For USW, the challenges faced (and now managed) by the USS pension scheme did not impact due to very low numbers being part of the scheme. For professional services staff, the University made a difficult decision to move new starters to a private company pension through PSS Limited, a subsidiary offering services to the University, lowering costs, over time, associated with the Local Government Pension Scheme. The next challenge is the Teachers Pension Scheme. The cost of TPS lays firmly in the hand of the Treasury and whilst primary and secondary education (and indeed parts of tertiary education) are protected by DoE funding to mitigate cost increases, universities are not protected. Without legislative change, universities who gained university status through the 1992 Education Act will continue to be required to offer TPS to their academic staff. This enables a significant differential between pre and post 92 HEIs, placing post 92s at a distinct disadvantage. The House of Commons Library [published](#) a useful comparison briefing in February 2025 which noted that for TPS:

*“Every four years, the [Government Actuary’s Department](#) carries out a valuation of the TPS to ensure it can meet present and future obligations. These valuations are*

*then used to set employer and employee contributions. Following the most recent valuation in October 2023, [the employer contribution rate increased by over 20%](#).*

And for USS:

*“Through the [2023 valuation of the scheme](#), however, it became clear the scheme’s financial health had improved, and the previous changes to benefits were reversed, with [member and employer contributions reduced](#).”*

USS from January 2024 had an employer contribution rate of 14.5%, TPS from April 2024 stood at 28.6%. For 2024/25 the pension cost difference for USW for academic staff was £5.9m higher (as a predominantly TPS institution) than it would have been if we were a pre-1992 university with colleagues in the USS scheme.

- Cost of Transformation

It is clear and accepted that a large part of the response to the challenge is the transformation of how universities operate. Whilst there are some large challenges in terms of contract and pension requirements there are opportunities in reducing estate footprint and investment in digital solutions including automation. USW are investing in plans for both with resource being acquired to support the significant change requirement and impact for the institution. Access to transformation funding in Wales would support activities in this area and reduce the risk for universities.

In addition to the above challenges in expenditure, the overall impact of the financial challenge, will for many HEIs, impact on their ability to borrow, or the cost of any borrowing an institution may have. HEIs will run risk of breaching financial covenants. This in turn will impact on the sector’s ability to invest in the future, leading to a slow decline in asset value with an associated impact on attractiveness to the market, loss of income and a race to the bottom.

### **3. The changes that have already been made in recent years by you or your predecessors to mitigate the impact of the financial challenges facing University of South Wales**

The University of South Wales has had a strong track record in careful management of its finances. Considering our expenditure has always been intrinsic in our planning and we have been prudent and careful in our financial management both prior to and following merger. Reviewing cost base and how we prioritise spend is not unusual and restructuring, including reviewing our management structures and professional services has been part of business as usual. These are, however, significantly more challenging times but our careful planning has meant that we have worked in an anticipatory way. We commenced our plans for transformation of the institution in 2021, albeit with a focus on [operational transformation](#) as outlined in our [Strategy 2030](#). Our Fit-for-the-future-operations confirmed:

- We will consolidate our estate and enhance our digital infrastructure. We have already reduced our estate footprint by over 20% since 2019.
- We will use flexible spaces and emergent technologies to enable innovative pedagogical and work practices.
- Our services will be efficient and innovative and meet the needs of our students, staff and partners.

- We will deliver timely and consistent business intelligence, with an effective data governance and management framework, to inform and empower decision making.

In early 2023 we identified an emerging financial challenge aligned to increases in costs of delivery and fixed income from our provision. We quickly introduced a Vacancy Management Panel to provide a holistic consideration of approval of replacement and new colleague appointments. We also began the work on how we would continue to deliver our strategy but through a financial lens, ensuring that our considerations would be focussed on cost benefit. Today this is our SIG 2023-2026 Transformation Portfolio which focusses on three core programmes relating to: Our Workforce, Our Ways of Working and Our Growth. This portfolio has already realised significant savings and provides a plan for future management of our financial challenges. The portfolio has been deliberately aligned to our 2030 Strategy and has been careful in how we plan for cost reduction, efficiency in how we deliver our activities and finally, but most importantly how we plan for growth. The work to date, focussing at this point on our staffing resources has already delivered large scale savings.

#### **4. More details on your proposals to cut 90 jobs and reduce courses, as reported in February**

Our current 45-day consultation which is due to conclude in May 2025 focusses on our academic provision and resources. This follows a Voluntary Exit Scheme which took place in the Spring of 2024 and a 45-day consultation which took place in the Autumn of 2024 and focussed on our professional services areas.

The current consultation considers four areas of review:

- Areas of our portfolio and associated resource  
Reviewing our course portfolio is business as usual for USW. We consider courses annually in terms of financial viability and market attractiveness and close and/or suspend courses for recruitment.
- Our management of subject areas  
We have taken this opportunity to consider the parity of the size and shape of these subjects and consulting on proposals in this area.
- Our academic capacity more generally  
We are consulting on a number of posts in this area, many of which are currently vacant.
- Our capacity and focus of research  
Funding for research has become increasingly challenging with full economic costing dropping to around 56%. We have had to make difficult decisions on how we subsidise activity. We have therefore proposed prioritised research activities and roles that align with our accelerators and Units of Assessment (UoAs), interdisciplinarity, and funding potential to advance the University's strategic goals.

#### **5. More details on how you are consulting with staff, students, and other key stakeholders about your proposals**

The consultation period commenced in February, with a formal meeting with our Trade Unions. The consultation went live to affected staff, students and applicants following this.

Throughout the period of consultation, we have held multiple meetings between our Executive Team and the Trade Unions and between Faculty Leadership Teams and USW colleagues. Student Union engagement has also taken place throughout the timeline and affected student cohorts have been met regularly.

In terms of communication with external stakeholders, this has been carefully managed through a detailed communications plan led by our Director of Communications, Public Affairs and Policy. This has included communication in advance of launch with Welsh Government, Medr, Universities Wales and local MSs and MPs. Following the launch of consultation a statement was published on our external website. Targeted letters were also sent to our partners.

**6. What will happen after you have finished consulting and associated timelines (including how any consultation will shape the final plans, and when those final plans will be drafted)**

Following the conclusion of the consultation period, all feedback will be carefully reviewed before final decisions are made. Outcomes will be progressed in accordance with the University's policies, procedures, and best practice. While some staffing changes may take effect immediately, others, particularly where they are linked to course teach-out, will be implemented in a phased manner.

The University remains committed to fairness, transparency, and ongoing engagement with recognised trade unions and colleagues, while ensuring decisions take into account operational requirements and the evolving needs of academic delivery.

[End]