Llywodraeth Cymru
Welsh Government

THE FUTURE OF TERTIARY EDUCATION IN WALES

Five challenges and calls for submission

CONTENTS

WG53899
Digital ISBN 978-1-80633-991-4

INTRODUCTION FROM THE MINISTER FOR FURTHER AND HIGHER EDUCATION

Introduction from the Minister for Further and Higher Education

Tertiary education is vital to creating a fairer and more prosperous Wales. It unlocks potential - individual, societal, and economic - to shape our future.

The tertiary sector in Wales stands as a cornerstone of our social and economic progress. It is not only a driver of knowledge and innovation but also a key contributor to creating opportunities for individuals and communities across the nation. By fostering a culture of lifelong learning, the sector equips people with the skills and confidence they need to thrive in a rapidly changing world. This commitment to education and research underpins Wales' ambition to build a fairer, greener, and more prosperous society.

Our aspiration as a government has been to create a tertiary education system that is far more equitable, more accessible, high quality, and better delivers for our changing economy and society. And over this Senedd term, we have delivered substantial reform towards those aspirations. By enacting the Tertiary Education and Research (Wales) Act 2022, we have laid the foundation for a joined-up post-16 system through the establishment of Medr. As a new and innovative body that will shape the future of tertiary education and research in Wales, Medr will drive forward greater collaboration, excellence, and ambition.

Further education has experienced an increase in participation since the pandemic, and I have overseen the expansion of the Education Maintenance Allowance, and increases to the Welsh Government Learning Grant, to support learners of all ages to continue their education. The sector's adaptability - whether through digital learning, flexible study options, or targeted support - has been instrumental in responding to challenges such as the pandemic and the evolving needs of the labour market. This resilience demonstrates our colleges' ability to innovate and lead.

I am also proud that Wales continues to lead the way with a progressive approach to higher education student support. Our ongoing commitment ensures that financial barriers need not hold back talent and ambition, because we strongly believe that your options for further study should never be limited by your background. We have maintained and increased a robust financial package for part-time students, opening higher education to thousands more people and widening access across Wales.

Our universities have continued to undertake world-leading, impactful research and innovation activity that has delivered tangible benefits to the people and places of Wales and beyond. They support their local economies by attracting talent and investment. Through collaborative research, international partnerships, and cutting-edge innovation, our institutions contribute solutions to some of the most pressing issues of our time, from climate change to health and technology. By aligning education with economic priorities and societal needs, the sector continues to shape a future where knowledge empowers progress for all.

However, we cannot ignore the challenges facing tertiary education. The world is changing rapidly, and our universities, colleges, and schools have navigated dramatic shifts in learner participation and needs, economic pressures, and the enduring consequences of the pandemic and EU exit.

We face stubbornly low participation rates in some areas, a changing demographic profile, and growing competition in the UK and global education market. More than ever, government and providers need to work together to adapt to a challenging financial environment, a shifting economy, and rapidly changing learner experiences and expectations of their education and training. The UK Government has announced significant reforms to tuition fees, research funding, and qualifications, and we need to respond to these changes in a way that works for Wales.

These challenges are complex and demand careful analysis to shape a strong, effective response. This paper is the next significant step towards that, but it is not alone.
As set out in part 3, we have already commissioned extensive research into provision and participation, we will soon be publishing an evaluation of the Diamond Reforms to student support, and we are developing a strategic prospectus for vocational education and training reform.

We have also responded to the financial challenges facing higher and further education institutions. In higher education, we have invested £18.5m in additional capital funding to improve infrastructure and reduce running costs, and we have taken the difficult decisions to increase tuition fees with inflation, increasing sector revenue by an estimated £19m both this year and next. To support increased learner numbers, we have invested an additional £44m in colleges over the past two academic years.

But the challenges outlined in this paper demonstrate that we need a more fundamental look at our approach to higher and further education policy. As we approach the end of this Senedd term, I want to bring together the workstreams that have been exploring different but connected issues, to ensure we have a coherent picture of the challenges and opportunities ahead.

This is our opportunity to build on our progress, to lay the groundwork for the next chapter, and to consolidate a comprehensive evidence base on which to deliver a programme of policy reform over the next Senedd term.

This paper sets out the five key challenges facing the sector, and I am inviting stakeholders to contribute to the evidence base for each challenge.

We want a tertiary education system that empowers people from every background to learn, retrain, and thrive throughout their lives. A system built on collaboration, harnessing the strengths of our institutions to develop the skills Wales needs for the future. A sector that is financially stable and sustainable, where every student is supported to reach their full potential. And a system of research and innovation that delivers real benefits for the people and places of Wales and beyond.

Our ambition is to build on what we have achieved, and now to go further.

Vikki Howells MS
Minister for Further and Higher Education

01

CONTEXT AND SUMMARY

Part 1: Context and Summary

Tertiary education in Wales encompasses all post-16 education and training provision across a range of levels, from basic skills to postgraduate degrees. The tertiary education sector in Wales comprises of:

- School sixth forms, which primarily deliver full-time education at levels 2 and 3 to 16–to-19-year-olds, and are overseen by local authorities.
- Further education colleges, which deliver a whole range of full-time and part-time education and training, both vocational and academic, from basic skills through to degrees (in partnership with universities).
- Universities and other higher education providers, which deliver full-time and part-time degrees and other higher education courses from levels 4 to 7, as well as extensive research and innovation activity.
- Apprenticeship and training providers, which predominantly deliver apprenticeships in partnership with employers.
- Adult community learning, predominantly lower-level and basic skill part-time provision delivered by local authorities.

Since 2024, this diverse and complex sector has been funded and overseen by Medr, a Welsh Government sponsored body established by the Tertiary Education and Research (Wales) Act 2022.

As the Minister sets out in the foreword, a thriving tertiary education and research sector is indispensable to a prosperous, fairer and more equal Wales. Every year, thousands of learners reap the benefits of new skills, new perspectives, and new knowledge through their participation in education and training at all levels. Businesses and public bodies rely on this training and development to improve their goods and services. Research and innovation activity generates new ideas and innovations to improve products, ways of work, and transform people's lives.

However, changes in the wider world – in demography, in the economy, in the public finances, in culture and learners' expectations of education and training – require that tertiary education changes in turn. Much of how the sector operates is grounded in traditional and deep-rooted processes. The strengths and successes of tertiary education institutions in Wales owe much to these well-established ways of working. But the challenges of the coming decades require a fundamental revision of how tertiary education is planned, organised, and delivered in Wales.

This paper sets out what Welsh Government believes to be the five key challenges for tertiary education in Wales. It presents a wide range of evidence to further explore these challenges. The evidence presented is not exhaustive – as set out in Part 3, there is a range of evidence-gathering and research work being undertaken which will further expand on what we present here.

The five challenges are:

- **Participation and equality of opportunity** – ensuring that everyone, regardless of background, can access and succeed in further and higher education.
- **Demographic change and lifelong learning** – responding to an ageing population and supporting learning throughout life.
- **Competition and collaboration** – supporting strong partnership working across the sector.
- **Financial sustainability** – ensuring institutions can deliver high-quality education and research on a secure financial footing.
- **Delivering for the economy of the future** – aligning education with the needs of the evolving economy.

The paper makes clear that there are few easy options for addressing the challenges identified. Any policy response will require a consideration of difficult trade-offs, prioritisation of limited resources, and a clear focus on the most effective and valuable activities that deliver better outcomes for learners, society, and the economy.

The paper is intended to invite stakeholders - tertiary education providers, learners and staff representatives, as well as businesses, public service providers, sector experts, and other interested parties both inside and outside Wales – to identify and submit further evidence and information which complements, corroborates, and indeed challenges what we present here.

During the submissions period, Welsh Government will engage with key stakeholders. The Minister will also convene further meetings of the Tertiary Education Ministerial Advisory Group, bringing together the diverse range of views across the sector for consideration and discussion. We hope these discussions will further inform responses by stakeholders.

The submissions provided by stakeholders in response to this paper will enable Welsh Government officials to prepare for the new Senedd term, and to immediately work with the government elected to address the challenges set out, to develop a policy response grounded in good quality evidence and the considered views of stakeholders.

02

CHALLENGES

2.1 Participation and equality of opportunity

Increasing participation in tertiary education is fundamental to developing a higher-skilled workforce, which in turn supports increased productivity, reduces inequality, and improves health and wellbeing. Evidence (see section 2.5) shows that improved levels of education and qualifications will generate positive economic and social returns for both individuals and society.

Wales faces a long-standing challenge to increase post-16 participation in education and training compared to the rest of the UK, which already has low levels of continuation in education after age 18 compared to France and Germany. Wales has a higher estimated share of young people who are not in employment, education or training (NEET) than other UK nations, and lower qualification levels among younger adults in the workforce. The percentage of 22 to 30-year-olds qualified to at least level 3 in Wales was 71% in 2022, compared to 79% in England and 82% in Scotland.

However, participation challenges vary across the tertiary system. There is a growth in demand for FE whilst school sixth forms learner numbers and the number of school sixth forms themselves are declining. In higher education we have participation rates lower than the rest of the UK at age 18, but a greater proportion of students entering higher education part-time and at a later age.

Across all tertiary education personal and household characteristics lead to unequal participation rates and there is a challenge to provide Welsh-medium opportunities in FE and HE whereas provision is relatively stronger in school sixth forms.

2.1.1 – Post-16 education

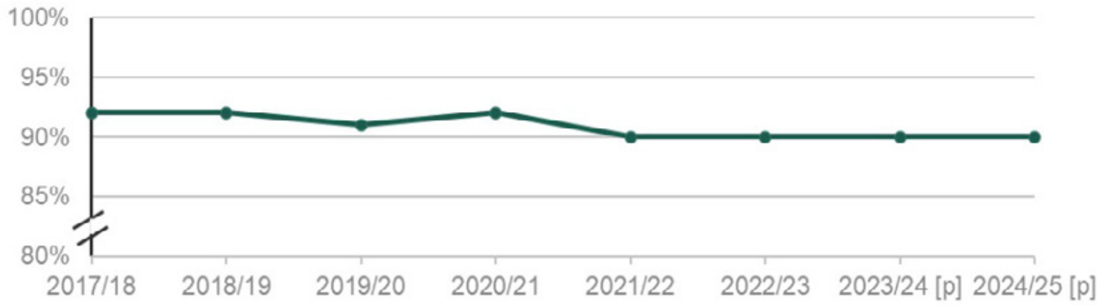
Higher levels of participation in post-16 education are essential to meeting three key National Milestones:

- 75% of working age adults in Wales being qualified to level 3 or higher by 2050, with an estimated 68.6% of working age adults in Wales qualified to level 3 or higher in 2024.
- the percentage of working age adults with no qualifications being 5% or lower in every local authority in Wales by 2050, which is currently true in 6 out of 22 local authorities as of 2024).
- 90% of 16- to 24-year-olds being in education, employment or training by 2050, which was 86.4% in 2023 (provisional).

Progression from year 11

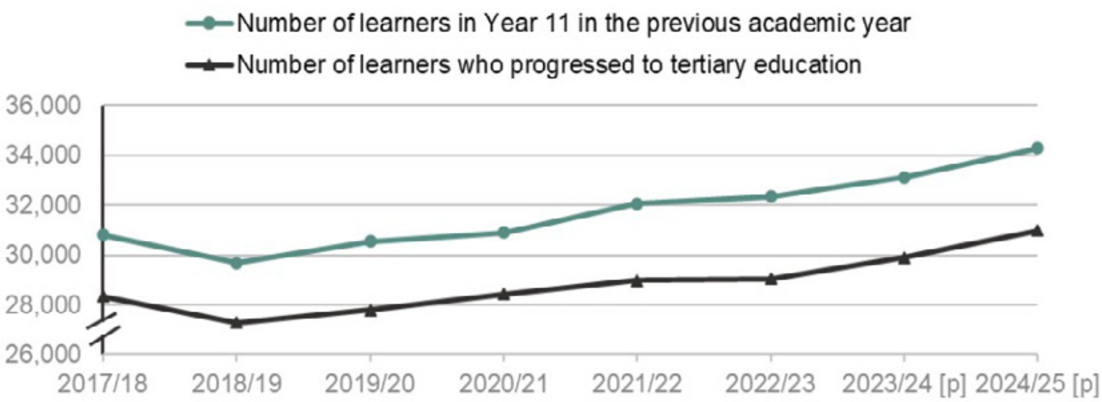
Progression to post-16 education from year 11 has stabilised in recent years following a post-pandemic fall, and has remained at 90%, a few percentage points down on pre-pandemic trends.

Figure 1: Proportion of learners progressing from Year 11 to tertiary education, by academic year, August 2017 to January 2025



Source: [Sta/Medr/04/2025: Progression from Year 11 to tertiary education, August 2017 to January 2025 - Medr]

Figure 2: Number of learners progressing from Year 11 to tertiary education, by academic year, August 2017 to January 2025



Source: [Sta/Medr/04/2025: Progression from Year 11 to tertiary education, August 2017 to January 2025 - Medr]

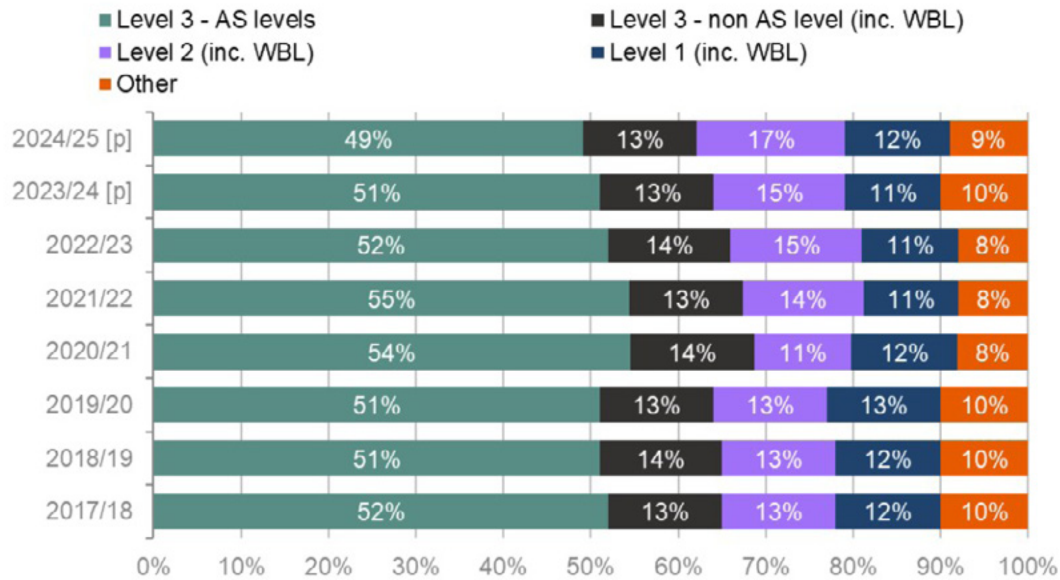
However the number of learners entering post-16 education from year 11 is growing substantially. The number of year 11 leavers progressing to FE colleges increased by 9.2% in just one year between 2023/24 and 2024/25, and has continued to grow into 2025/26 according to provisional data. This rate of growth has outpaced cohort growth (3.6% in 2024/25) and has only been partially offset by declines in the proportion of year 11 leavers in school sixth forms.

Academic and vocational pathways

This growth, particularly at colleges, also points to changing trends in pathways through post-16 education and training. Recent years' data shows a growth in enrolments on lower level (level 2 and below) vocational courses, and a relative decline in the proportion of learners undertaking level 3 courses, in particular AS and A levels.

Wales already had a relatively high proportion of post-16 learners in college and undertaking vocational or applied general pathways prior to Covid-19, and this is beginning to grow again after a brief decline during the pandemic period. A 2024 Education Policy Institute Report highlighted that young people in Wales are less likely to be undertaking AS/A Levels and other level 3 courses than elsewhere in the UK, and that this is particularly true of Welsh learners from more deprived backgrounds.

Figure 3: Proportion of learners who progressed into post-16 education by level of study, August 2017 to January 2025



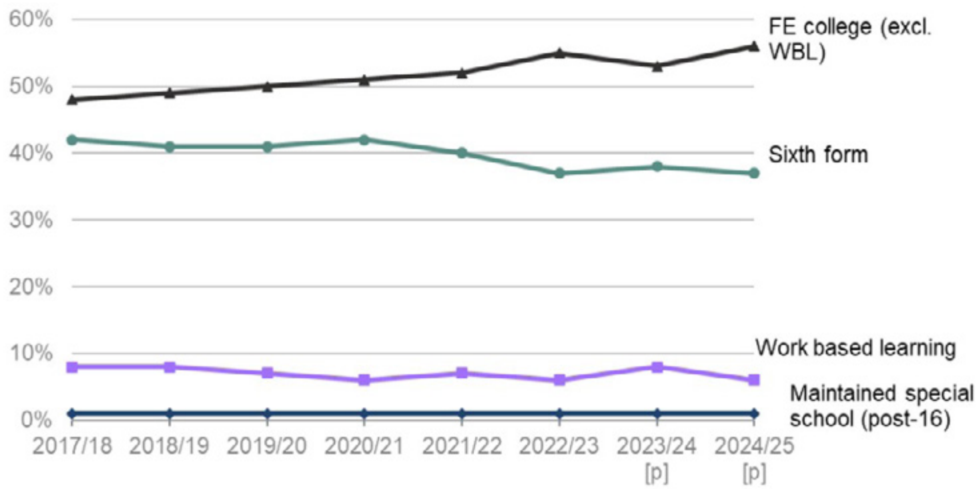
Source: Sta/Medr/04/2025: Progression from Year 11 to tertiary education, August 2017 to January 2025 - Medr

Schools, colleges, and apprenticeships

Schools and colleges are seeing contrasting patterns in learner numbers, with a long-term decline in the numbers of pupils in school sixth forms (and the number of sixth forms themselves) largely offset by growth in the colleges sector.

The proportion of learners progressing to FE colleges at age 16 has increased from 48% in 2017/18 to 56% in 2024/25, whilst the proportion in sixth forms has declined from 42% to 37% in the same period. Overall pupil numbers at school sixth forms have declined by a quarter since 2013/14, and the numbers of schools with sixth-forms has fallen by a fifth over that time.

Figure 4: Proportion of learners who progressed into each post-16 provider/provision category, August 2017 to January 2025

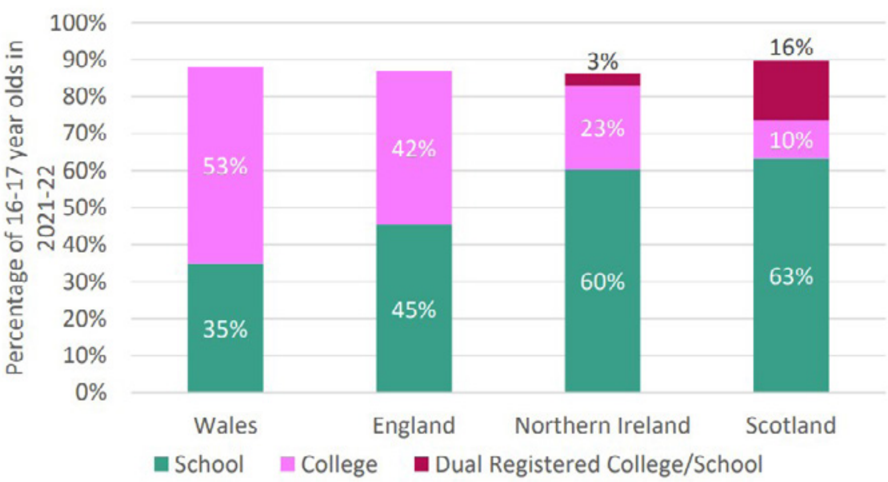


Source: [Sta/Medr/04/2025: Progression from Year 11 to tertiary education, August 2017 to January 2025 - Medr]

Similar to the above noted trends in qualification pathways, in 2021-22, 16-17 year old learners were [significantly more likely] to attend a further education college in Wales than in any UK nation, with 53% of all 16-17-year-olds attending college compared to 42% in England, 23% in Northern Ireland, and 10% in Scotland (plus 16% dual-registered).

Despite the growing proportion of learners entering vocational pathways at age 16, apprenticeships are only taken by a small minority of learners. Approximately [50% of apprenticeships in Wales] are undertaken by over 25s, and only a fifth of starts are by 16-18 year olds, a similar proportion to England, but much lower than Scotland and Northern Ireland.

Figure 5: Share of 16-17-year-olds in schools and colleges by UK nation, 2021-22



Source: [Comparing policies, participation and inequalities across UK post-16 Education and Training landscapes - Education Policy Institute]

These trends vary significantly by local authority. In some areas, school sixth-form delivery have been restructured in response to declining learner numbers, with local FE colleges becoming the primary choice for post-16 education.

Implications of trends in post-16 participation

The differing trends in participation through post-16 education in either school or college raise significant questions about the cost-effectiveness of provision, accessibility and transport, Welsh language and bilingual provision, and the diverse preferences of learners.

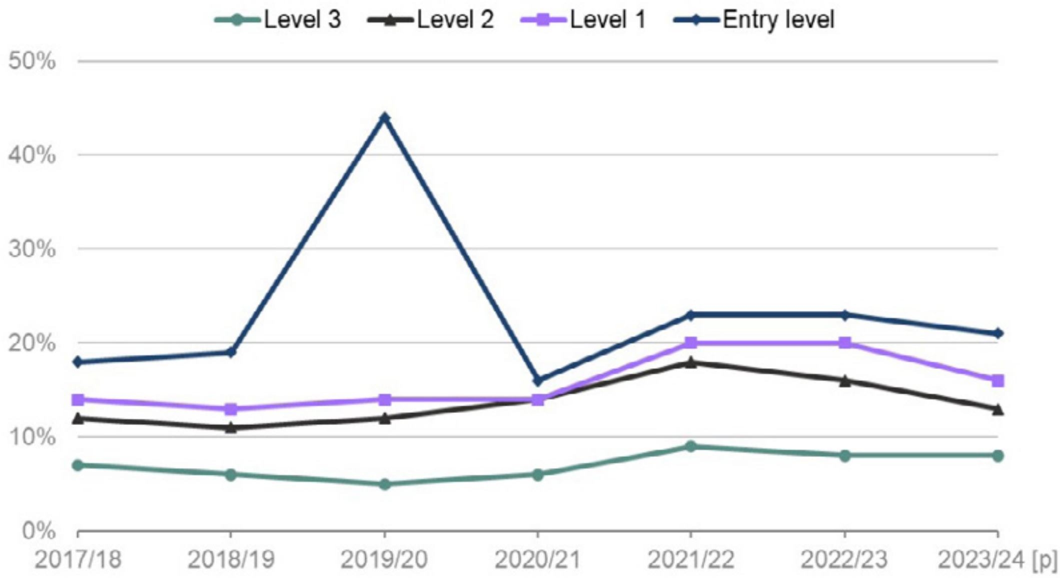
The available data also suggests that a large proportion of learners in Wales seek to undertake vocational training pathways, with a growing proportion at levels equivalent to or lower than at GCSE. The available evidence suggests that Wales has a higher proportion of learners undertaking vocational pathways, and a lower and declining proportion undertaking academic pathways (particularly AS/A Levels), than other parts of the UK.

This growth in college enrolments could play a significant role in unblocking barriers to employment for young people in Wales, supporting their personal development and upskilling, particularly if the alternative is young people becoming NEET. However, the growth in college entries, particularly on more expensive technical and vocational pathways, is accompanied by increased costs. This includes increased delivery costs in core provision but also ancillary services such as cost-of-living support (such as the Financial Contingency Fund - FCF), additional learning needs (ALN) support, and wellbeing and mental health support.

In 2025/26, Medr allocated additional funding to recognise the increased participation in colleges, However, the observed increases in learner numbers and the unit-costs of provision undertaken appear to be outrunning even this growth in funding.

Additional support costs also relate to learner completion rates. Students on lower-level courses are more likely to drop out and are less likely to progress to sustained continued education or employment, so raising qualification levels depends on improving retention of level 2 and below learners in education. These learners will also need to remain in education and training for longer to attain level 3 and above, and colleges will need to continue to provide additional support, which will increase short-term government spending.

Figure 6: Proportion of learners progressing to post-16 education but leave their latest programme without completing, August 2017 to July 2024



Source: Sta/Medr/04/2025: Progression from Year 11 to tertiary education, August 2017 to January 2025 - Medr

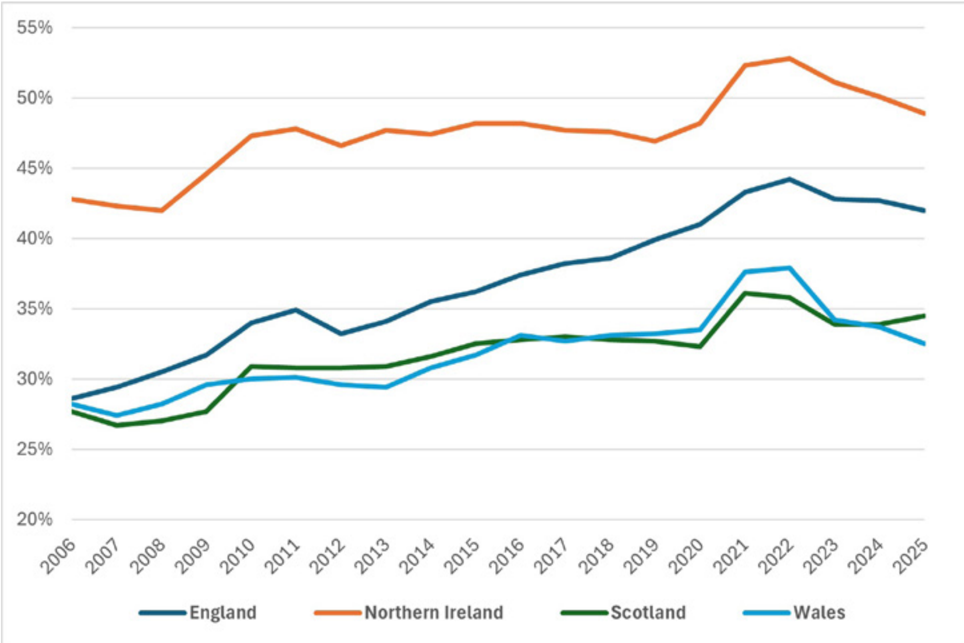
Given the pressures on financial resources, it is vital that increases in public funds to support increased participation in vocational education and training yields results in increasing overall skills and qualification levels, particularly in priority skills areas and economic sectors.

2.1.2 – Higher education

The lower proportion of Welsh learners in post-16 education attaining level 3 qualifications compared to elsewhere in the UK follows through into progression into higher education, particularly at age 18.

32.5% of Welsh 18-year-olds applied to full-time undergraduate courses via UCAS by the June deadline of 2025 recruitment cycle, compared to 41.2% across the UK, continuing a trend of a growing gap in HE demand for 18-year-olds between Wales and England in particular. The 18-year-old entry rate for Wales in 2025 was 29.2%.

Figure 7: Proportion of 18-year-olds applying for higher education via UCAS, by UK country of domicile – 2006-2025 entry cycles



Source: UCAS Application rate by domicile, June deadline.

Notes:

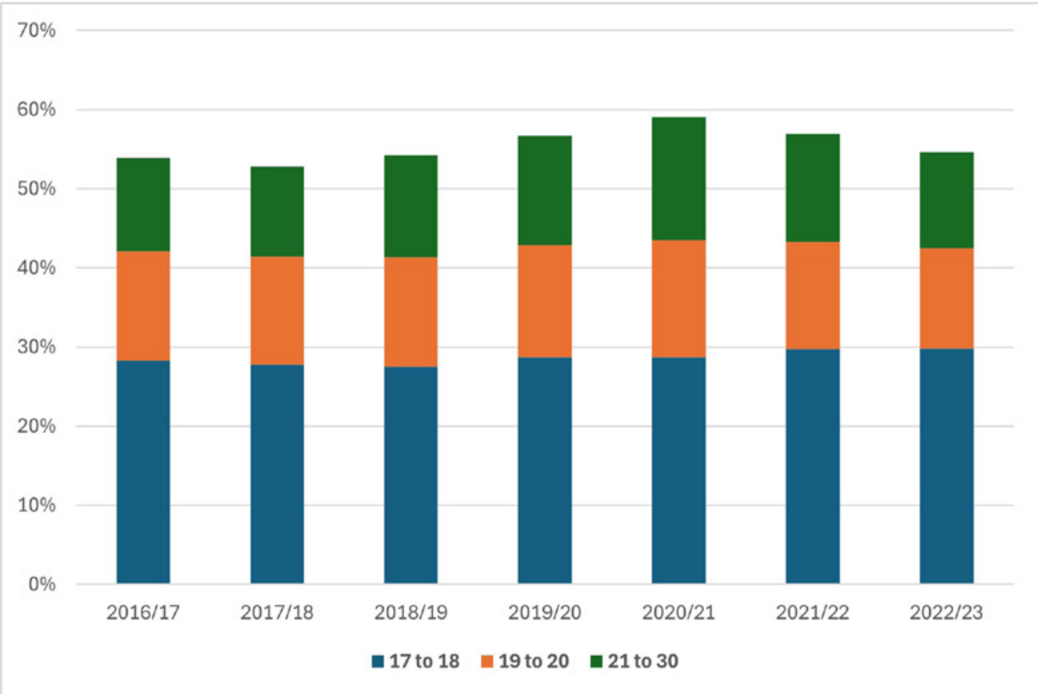
- Number of applicants from a UCAS application cycle divided by the estimated base population of all 18 year olds.
- UCAS applications represent around 2/3rds of total applications to HE in Scotland.

Whilst the pandemic saw a temporary spike in higher education demand among young people in both Wales and the UK, the pre-pandemic trend of growth in demand for higher education appears to now be slowing across the UK. The causes of this are unclear, but could include cost-of-living pressures and growing concerns about employment prospects.

However, entry at 18 through UCAS only represents a fraction of higher education participation in Wales. Welsh students are more likely to be older and studying part-time than elsewhere in the UK. 37% of all Welsh students studied part-time in 2023/24, compared with 23% of English students, and 43% of Welsh students were aged 25 and above, compared with 36% of English students. This is likely related to Wales providing extensive financial support for part-time higher education since 2018, including higher subsidies to teaching costs via Medr for courses in Wales, and pro-rata maintenance support including loans and grants.

The Higher Education Initial Participation (HEIP) measure demonstrates that around 30% of Welsh 17- and 18-year-olds participate in higher education, but that participation is estimated to reach 55% by the age of 30 if the rate of initial participation at each age stays the same. Although the HEIP is no longer calculated in England and was derived from a slightly different method, in the last year it was in 2018/19 the measure was higher than in England, at 54.2% compared to 51.9%.

Figure 8: Higher Education Initial Participation rate (HEIP), by age of initial participation – 2016/17 to 2022/23



Source: Medr: Welsh Higher Education Initial Participation measure: 2016/17 to 2022/23

Furthermore, the UK (including Wales) has a relatively low proportion of workers with sub-degree higher education qualifications at level 4 and 5 compared to similar economies. Increasing access to and attainment of non-degree higher level qualifications, both at further and higher education institutions, could be an additional and cost-effective means of improving overall education and skills levels.

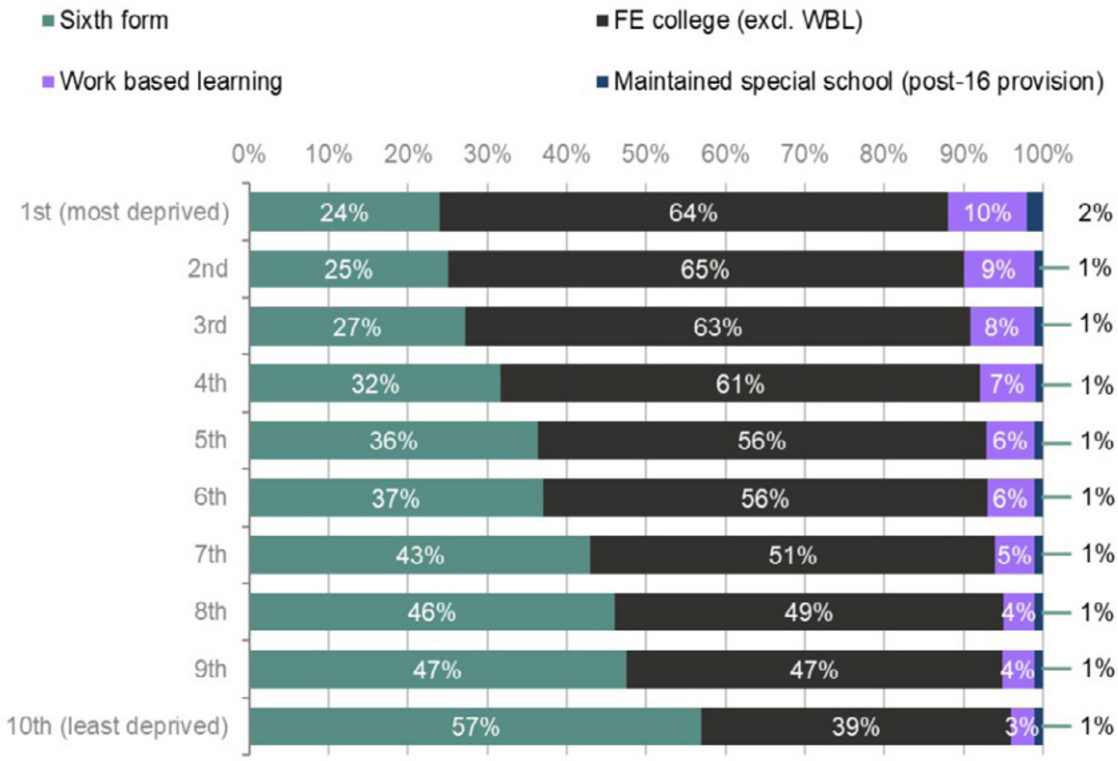
There is therefore still room for further growth in higher level education at all ages, which might be expected if an increasing proportion of learners attain level 3, and if students in Wales continue to see higher level education as a worthwhile investment.

2.1.3 – Inequalities in participation

There are persistent gaps in tertiary education participation across several dimensions of inequality throughout Wales.

A Wales Centre for Public Policy report highlights the scale and multi-dimensional nature of disparities in access to tertiary education in Wales. Personal and household characteristics, especially deprivation, gender and disability, still go a long way in determining whether people access tertiary education.

Figure 9: Proportion of learners who progressed in each post-16 education provider/provision category, by deprivation decile, 2022/23 academic year



Source: Sta/Medr/04/2025: Progression from Year 11 to tertiary education, August 2017 to January 2025 - Medr

The report found that learners from more socio-economically deprived backgrounds, as well as learners with additional learning needs, have higher rates of vocational and work-based learning participation, and lower attainment rates. The latest Medr data corroborates these findings: 39% of pupils eligible for free school meals (FSM) in Year 11 enrolled onto Level 3 qualifications, which compared with 72% of Year 11 pupils not eligible for FSM.

Post-16 learners who are not eligible for FSM have higher rates of sustained destination in education or employment than learners eligible for FSM through time. This pattern holds true for both sustained employment and sustained learning. The gap between FSM eligible students and those not eligible in 2022/23 was 12 percentage points, slightly smaller than the gap in the previous year (14%).

Learners from the least deprived areas are conversely much more likely to undertake post-16 education in schools, take academic qualifications, and enter higher education. They are also more likely to undertake higher level apprenticeships. Women are significantly more likely to enter higher education than men. Welsh boys have the lowest levels of higher education participation across all UK nations, and Wales has the widest higher education participation gap between men and women.

Inequalities in tertiary education reflect wider inequalities in society which can be observed from early years. Tertiary education cannot alone counteract long-established social inequalities, which require a range of responses across education, social and economic policy. Nonetheless, there is clearly a continued need to identify the most effective ways in which young men and learners from socio-economically disadvantaged backgrounds can be supported to participate in higher levels of education, both to improve overall participation rates and to improve life chances for these young people.

2.1.4 – Cymraeg and bilingual provision

Ensuring sufficient tertiary education opportunities through the medium of Welsh is essential to achieving the targets set out in Cymraeg 2050, particularly in helping ensure that more school leavers retain their Welsh language skills.

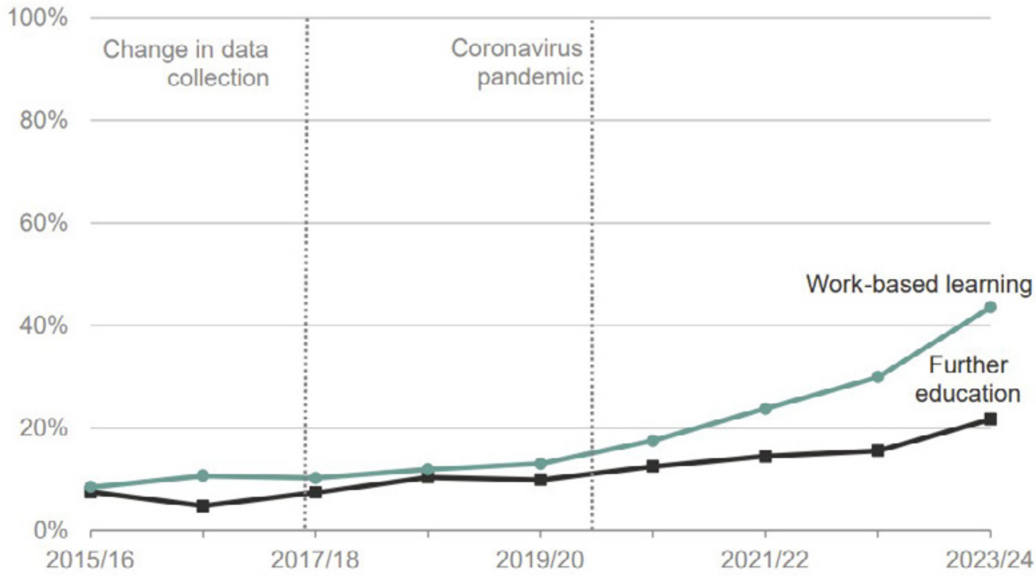
Further education and schools

Post-16 education through the medium of Welsh is overwhelmingly delivered by school sixth forms. According to the Welsh Language Commissioner, in 2021/22 15.9% of learning activities within sixth forms were undertaken entirely through the medium of Welsh, compared to just 0.2% in FE colleges and 0.5% in work-based learning.

The growing numbers of post-16 learners entering college and falling numbers in school sixth-forms will increase the onus on the further education sector to increase the number of bilingual and Welsh-medium learning opportunities.

The number of learning activities undertaken in Welsh or bilingually in further education institutions and in the work-based learning sector has increased significantly in the past five years. Whilst more learners are studying at least partly in Welsh, this increase is almost entirely due to an increase in activities involving a “small amount” of Welsh. Only 1% of learning activities studied at least partly in Welsh were studied entirely through Welsh, and 10% bilingually. There has not been a rise in activities delivered in Welsh only, or with a significant amount of Welsh.

Figure 10: Percentage of learning activities conducted bilingual or in Welsh, by learning type and academic year, August 2015 to July 2024



Source: [Sta/Medr/06/2025: Further education, work-based learning and community learning, August 2023 to July 2024 - Medr]

A recent [Estyn thematic report] showed that the amount of Welsh provision in the further education sector reflects the pattern of training schemes which have been more effective in terms of targeting staff with low level language skills and who are at the start of their journey along the language continuum. This in turn acts as a constraint on the use of Welsh in the further education sector, which limits opportunities for students and apprentices to use the Welsh language consistently in their learning.

A report by the Welsh Language Commissioner in 2023 about the views and experiences of post-16 learners in Welsh-medium or bilingual education in schools and further education colleges across Wales highlighted the difference between course availability in further education colleges compared to schools. The report showed that there are differences between the two sectors in terms of the nature of the provision and the categories that are used to record the medium of the provision. Colleges also face significant challenges in offering provision for learners with different levels of ability and fluency across a very wide range of subjects.

The report found that the lack of Welsh-medium provision in the further education sector is a barrier to learners, particularly in more vocational areas. It concludes that in most areas of Wales, that provision is at its strongest in schools, and national consideration needs to be given to the role of Welsh-medium and bilingual schools in the post-compulsory education landscape of the future.

There are challenges with the data submitted by colleges and apprenticeship providers on Welsh language, both in terms of how providers submit data and with the accuracy of the data submitted, meaning that achieving a consistent approach across colleges and apprenticeship providers is challenging and considerable analytical resource is required for data analysis. In addition, there are challenges in sustaining study of the Welsh language as a subject. A level entries for Welsh and Welsh Second Language have declined over a fifteen-year period, with the decline in Welsh Second Language being especially marked. These trends have mirrored declines seen UK-wide in the study of modern foreign languages.

The Welsh Language and Education (Wales) Act 2025 will introduce measures to promote the growth of Welsh medium education, seeking to make Welsh a natural part of everyday education in Wales.

Within tertiary education, the 2025 Act builds on the strategic duties placed on Medr under the TER Act requiring Medr to:

- Encourage demand for, and participation in, tertiary education provided through the medium of Welsh.
- Take all reasonable steps to ensure that there is sufficient tertiary education provided through the medium of Welsh to meet demand.
- Encourage the provision of tertiary education through the medium of Welsh.

Under Section 9 of the Tertiary Education and Research Act, Medr has a strategic duty to encourage demand for, and participation in, Welsh tertiary education provided through the medium of Welsh. Medr must also take all reasonable steps to ensure that there is sufficient Welsh tertiary education provided through the medium of Welsh to meet demand.

Higher education

In 2023/24, 30% of enrolments by students from Wales who are known to be fluent Welsh speakers studied at least 1 credit in Welsh, and 21% studied at least 40 credits in Welsh – these figures have been relatively stable in recent years. Medr's latest statistical release also shows that the proportion of all students studying at least 1 credit in Welsh has declined since 2020/21, however this is understood to largely be due to a change in data collection methods.

There were also decreases in the number of enrolments with higher numbers of credits studied in Welsh in 2023/24, apart from those studying at least 120 credits in Welsh which was slightly higher in 2023/24 than 2022/23 but lower than in earlier years.

The total number of staff contracted to teach through the medium of Welsh remains at 565 in 2023/24, the same as 2022/23 and 64% of teaching staff who were known to be able to teach in Welsh were contracted to teach in Welsh in 2023/24. Recent years have shown a downward trend in the number of teaching staff known to be able to teach in Welsh, and the impact of institutional restructuring on the numbers of staff contracted to teach in Welsh remains unclear.

Research by HEFCW in 2022 revealed the additional costs institutions face in providing Welsh-medium study in higher education was around £10 more per credit than English medium. This is because cohorts tend to be smaller increasing the average cost per student. This cost is more pronounced for higher cost subjects.

2.1.5 – Summary: Participation and equality of opportunity

- Increasing participation in tertiary education is crucial for building a more skilled workforce, supporting productivity, and advancing social and economic outcomes for individuals and society.
- Wales faces ongoing challenges with post-16 participation rates that trail behind other UK nations and international comparators, with lower progression to higher qualification levels and higher rates of young people not in education, employment, or training.
- Recent years have seen a stabilisation in progression rates from compulsory schooling to post-16 education, with a notable shift towards further education colleges and vocational pathways, especially at lower qualification levels.
- The decline in sixth-form enrolments is offset by growth in further education colleges, reflecting changing learner preferences and local educational provision.
- Apprenticeships remain a minority of provision by younger learners, with most being undertaken by older age groups.
- Increased participation in vocational and technical pathways brings additional costs for provision and support services, particularly for learners on lower-level courses who may require more time and assistance to achieve higher qualification levels.
- Progression rates to higher education from school or college at age 18 are lower in Wales compared to other UK nations, though overall participation in higher education increases with age due to higher levels of part-time and mature student enrolment.
- Persistent inequalities exist in tertiary education participation, with socio-economic background, gender, and disability all influencing access, attainment, and progression routes.
- Welsh-medium and bilingual tertiary education provision is concentrated in school sixth forms, with further education colleges and work-based learning providers offering more limited opportunities.
- Shifting patterns in tertiary education provision could create new challenges for ensuring broad and accessible Welsh-medium provision, particularly in FE colleges and in HE.

2.2 Demographic change and lifelong learning

As we move closer to the 2030s, the Welsh tertiary education sector must be ready to respond to sizable demographic change. The numbers of young people will decline and the population will continue to age whilst economic changes will demand more labour market flexibility.

Tertiary education will thrive in Wales by catering to all age groups and those already in work and providing more flexible and part-time opportunities.

Part-time learner numbers in further education have increased in the past Senedd term for the first time in over a decade. Apprenticeships are undertaken by a range of age groups. A relatively high proportion of Welsh higher education students study part-time, and numbers have increased since 2018. There are foundations upon which to build, but there is likely to be a need to go further and faster to make tertiary education at all levels accessible and available at all ages.

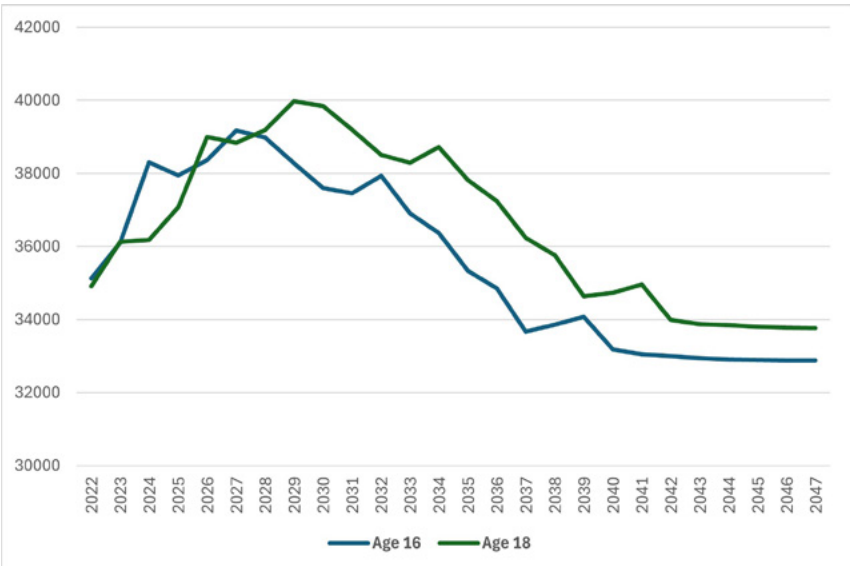
2.2.1 – Demographic change

Demographic change in the coming years will have a profound impact on tertiary education in Wales and across the UK.

From 2028 onwards, the number of 16–18-year-olds will begin to decline sharply. The number of 16-year-olds in Wales is projected to fall by 12% between 2030 and 2040, and the number of 18-year-olds by 13%.

Under current demand-based funding models, this could pose significant financial challenges for universities, colleges and school sixth forms, and any plan for the future of tertiary education funding in Wales must take account of it.

Figure 11: Projected number of 16- and 18-year-olds in Wales



Source: Welsh Government, Office for National Statistics

These dramatic population changes are expected to vary significantly between regions, with sharper decreases in the numbers of young people likely in more rural areas and in the north and west of Wales due to a mixture of demographic and migratory factors. Over 200 rural wards in Wales have already seen a decline in their overall population between 2011 and 2021.

For schools and colleges, the varying local trends in demographics will place differing pressures on the planning and delivery of post-16 provision. Colleges and local authorities will need to take account of this in their estates and staffing strategies, and assess the possible risks to provision currently delivered on low economies of scale. There are also considerations for Welsh-medium provision, which is more prevalent in schools than in colleges.

For universities, the overall UK-trends in population are likely to significantly affect market competition. Research for the Higher Education Policy Institute has estimated that if the UK application rate remains level, demand for higher education would fall by nearly 20% between 2030 and 2040, posing significant financial challenges for many universities.
This could be partly offset by an increase in entry rates for higher education. There is scope in Wales to increase overall level 3 qualification rates, particularly by addressing inequalities, which would likely lead to an increase in demand for higher education.

However, the overall slowing down of growth in entry rates across the UK (from a relatively high starting position compared to Wales) suggests that higher education participation rates (at least for age 18) are unlikely to offset a UK-wide demographic retrenchment. These UK-wide trends will have significant implications for Welsh universities (excluding the Open University in Wales), for whom 39% of students come from the rest of the UK, and three of which have half of their students from the rest of the UK.

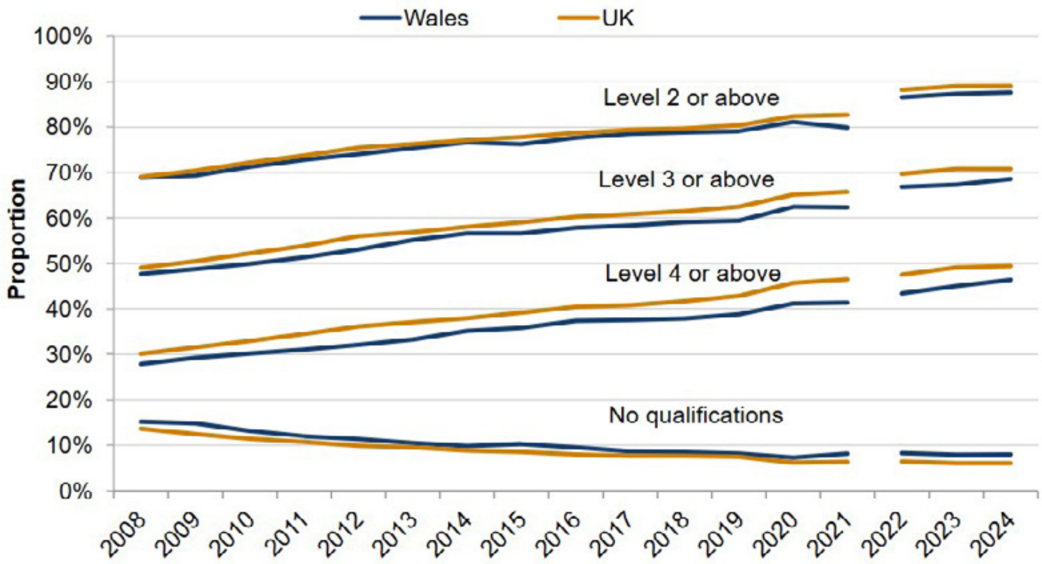
2.2.2 – Adult skills and qualifications

Whilst the numbers of young people are projected to decline, the overall numbers of older people are projected to increase modestly, with the average age gradually increasing. The ratio of working-age people to retirees will decline significantly. This shift poses challenges for economic sustainability, public services, and workforce availability, and will increase the importance of providing opportunities to people already of working age to improve their qualifications and skills, rather than solely relying on improving the qualification levels of young people.

There has been a large fall in the share of working age adults with no qualifications, from 15.2% in 2008 to 7.9% in 2024. However, there are wide differences across local authority areas, ranging from 2.3% in the Vale of Glamorgan to 13.8% in Blaenau Gwent. Older adults are more likely to have no qualifications than younger adults and men are more likely to have no qualifications than women.

The proportion of working age adults qualified to at least level 2 (equivalent to an A* to C GCSE) stood at 87.6% in 2024. As of 2024, 68.6% of working age adults in Wales were qualified to level 3 (A Level and BTEC equivalent) or higher. This indicates there is further work to be done to improve the rates of qualification achievement of the Welsh adult population at both levels 2 and 3. The concentration of low qualification levels among specific groups and in particular areas suggests that more targeted interventions are required to provide education and training opportunities for individuals who have no qualifications.

Figure 12: Level of highest qualification held by adults of working age – Wales and UK, 2008 to 2024



Source: Levels of highest qualification held by working age adults: 2024 [HTML] | GOV.WALES

Low levels of qualifications are associated with high levels of unemployment. 2021 Census data showed that 65% of those who are classified as 'never worked or long-term unemployed' are not qualified to level 2 and 55% have no qualifications at all. Those with at least level 1 and entry-level qualifications are more than half as likely to be long-term unemployed compared to those with no qualifications, and those qualified to level 2 nearly half as likely again to have never worked or be long-term unemployed. Research suggests that the relationship between adult basic skill levels (particularly numeracy) and employment is causal and not just simply an association.

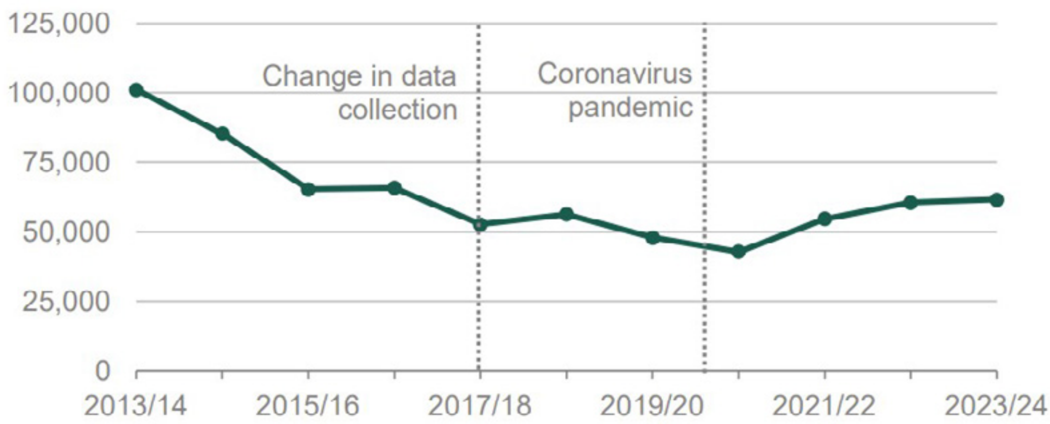
People from more affluent backgrounds or with existing higher levels of education are the most likely to participate in lifelong learning. According to the Learning and Work Institute, UK adults are 20% more likely to learn as an adult if they left school aged 18 compared to age 16, and half of those who left full-time education age 16 or below haven't engaged in learning since.

Distinct from qualification levels, there are gaps in our understanding of basic and essential skills levels – in literacy, numeracy and digital – among adults in Wales. The last National Survey of Adult Skills was conducted in 2010.

2.2.3 – Lifelong and adult learning

Part-time further education courses are offered across Wales and provide opportunities from entry-level to level 4 to improve basic, academic, and vocational skills. They are predominantly undertaken by learners aged 19+. Part-time learner numbers in further education declined significantly from 2013 to 2020. However, they have increased over the past Senedd term, partly due to the introduction of new pathways into learning such as Personal Learning Account (PLA) courses.

Figure 13: Part-time further education learners by academic year, August 2013 to July 2024



Source: Sta/Medr/06/2025: Further education, work-based learning and community learning, August 2023 to July 2024 - Medr

The Welsh Government has funded PLA courses in colleges since 2020 and they are now funded by Medr. Expanding the provision of these courses was a Programme for Government commitment. PLAs are short, flexible courses between levels 2 and 5 in identified skill-shortage areas that include net-zero and green technologies, digital skills, logistics, and advanced materials and manufacturing, available to employed adults earning less than the national median full-time salary (currently £34k).

Nearly 50,000 PLA courses were delivered between 2021/22 and 2023/24, backed by £79m of Welsh Government expenditure. Delivery has fallen in the past two years due to a reduction in funding. Demand regularly exceeds supply, and Medr has had to introduce new planning controls to ensure courses are focused on agreed skills shortage areas. PLA courses are now included as part of Medr's part-time further education allocations. A 2023 evaluation found that the PLA programme had been effective at drawing employed adults back into learning and training and created new flexibility for colleges to respond to local labour market needs.

Apprenticeships are also an important part of lifelong training opportunities. As noted above, approximately half of apprenticeships in Wales are taken by over 25s.

Section 94 of the Tertiary Education and Research (Wales) Act 2022 introduced a new duty on Medr to secure "proper facilities" for further education and training for adults specified in regulations. However, the section has not yet been commenced, and respective regulations have not yet been laid. For the new duty to have a meaningful impact and deliver a positive outcome for learners in Wales, we need to identify what would be the most effective interventions. It is important that the duty is affordable, deliverable and appropriately targeted to make a difference to the further education and training opportunities available for adults in Wales.

In higher education, part-time and older student participation rates of Welsh domiciled students have grown in recent years. Entrant enrolments at the Open University in Wales more than doubled between 2017/18 and 2023/24, coinciding with the introduction of part-subsidised part-time student fees and pro-rata student maintenance support for part-time students.

The Lifelong Learning Entitlement (LLE) is a new UK Government policy aimed at transforming higher education student finance in England by creating a single, flexible funding system for higher education. The entitlement provides a loan equivalent to four years of study, currently around £38,140, for qualifications at Levels 4 to 6, such as degrees and other higher-level qualifications. It covers full courses and, in a phased rollout, modular study with a minimum of 30 credits per module in priority subjects aligned with industrial strategy. From September 2026, learners will be able to apply for LLE funding for courses, and from January 2027 for modules.

The LLE is enabled by the Skills and Post-16 Education Act 2022, the Lifelong Learning (Higher Education Fee Limits) Act 2023, and extensive secondary legislation. This legislation does not apply to Welsh higher education providers nor to Welsh Government student support. Therefore, the LLE will not be available to students from Wales.

As noted above, Wales already offers a flexible system that supports part-time higher education through pro-rata grants and loans for those studying at 25 per cent intensity or more, and fee waivers from Medr for study below 25 per cent intensity. The PLA programme has been successful in providing short, flexible courses in further education. It remains unclear whether there will be significant demand for loan-funded modular higher education provision, and pilot modular courses "significantly lacked demand" according to a former DfE minister. The Welsh Government has considered that introducing the LLE in Wales would come with significant opportunity cost, with significantly increased complexity required in legislation, regulation, and provision of funding via SLC. We will continue to monitor the delivery of the LLE in England through 2026 and 2027, including implications for Welsh learners and institutions, and work with the UK Government and the Student Loans Company on any emerging cross-border issues.

2.2.4 – Summary: demographic change and lifelong learning

- The Welsh tertiary education sector must be prepared for a decline in the number of young people and an ageing population. Institutions must adapt their planning, staffing, and provision strategies to respond to local demographic shifts and the varying needs of communities.

- Projected decreases in young people could present financial and operational challenges for education providers, especially in rural and less populated regions.

- Policy will increasingly need to focus on providing flexible and part-time opportunities for learners of all ages and at all levels, particularly for those already in work.

- Low qualification levels remain linked to higher unemployment, underlining the importance of targeted interventions for adult learning and skills development, particularly in basic skills areas such as literacy and numeracy, as well as vocational training.

- Recent trends show a rise in part-time learners and apprenticeships across a broad age range, with higher education institutions experiencing steady part-time enrolments.

- Future policy could build on successes including part-time student support and Personal Learning Accounts, as well as the lifelong training opportunities provided by apprenticeships.

2.3 Competition and collaboration

Across the tertiary sector we are experiencing changes in learner numbers, demand and subject preferences. School sixth forms have seen a long-term decline in numbers, whereas demand for further education colleges is growing. High tariff universities are increasing their recruitment at the expense of others and recent changes by the UK Government have led to a downturn in international student demand. Lower student numbers in many universities and courses have led to universities restructuring their provision, leading to risks of subject cold spots in Wales. Current funding mechanisms, both in 16-19 education and higher education, may be incentivising competitive behaviour between providers that could in the long-run be detrimental to the sustainability of some education provision and providers.

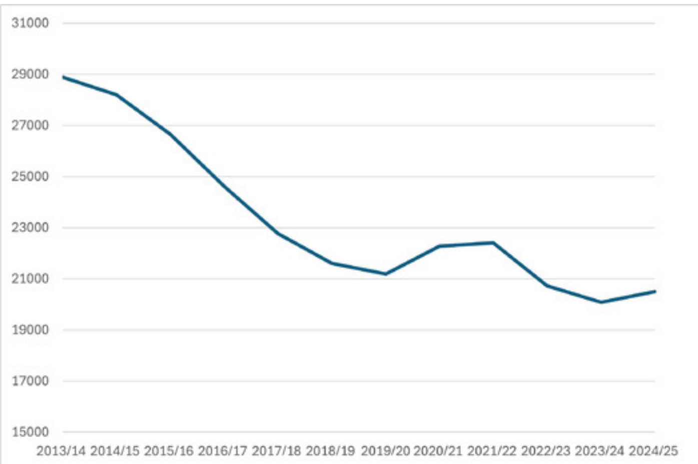
A lack of collaboration and coordination, particularly given Wales' relatively small scale, will pose challenges to ensuring continued access to a broad and accessible curriculum across the whole of Wales at all levels of tertiary education.

Medr has been tasked with exploring more collaborative and coordinated approaches to the planning and delivery of tertiary education provision in Wales, and to facilitate greater collaboration between providers. The Welsh Government has also worked with the Competition and Markets Authority and the Department for Education to clarify the regulatory position for higher education providers. Looking ahead, Medr and The Welsh Government will need to consider if further reform to regulation, funding, and governance is required to deliver a more coordinated approach that safeguards the future of a broad tertiary education offer across Wales.

2.3.1 - Schools and colleges

Over the past decade there has been a significant decline in the numbers of schools with sixth forms, which has fallen by a fifth (when excluding specialist schools), and the numbers of pupils in school sixth forms, which has fallen by 29%. Of learners progressing into post-16 education, a declining proportion choose to study in schools, as noted in part 2.1.

Figure 14: Post-16 pupil numbers in schools



Source: Stats Wales - Pupils by local authority, year group and sector

The decline in pupil numbers at a national level has been faster than the decline in the numbers of schools with post-16 provision, likely leading to smaller class sizes in many instances.

This has led to several local authorities evaluating the sustainability of their post-16 provision, including Powys, Ceredigion, and Anglesey in recent years, following other local authorities such as Torfaen, Blaenau Gwent, and Rhondda Cynon Taf which have undergone reorganisations of post-16 provision in schools. Reorganisation of schools is a lengthy process subject to a legislative framework and statutory requirements under the School Organisation Code published by The Welsh Ministers. In such instances, concerns have often been raised about the future of Welsh-language provision, as well as increased travel costs and distances creating a barrier to post-16 education accessibility.

In contrast and as noted above, the proportion of learners entering further education colleges at 16 has gradually been increasing and is now proportionately larger in Wales than in other UK countries. These trends were described by the 'Transitions to Employment' report as an increasing 'fragmentation' of the post-16 sector.

These trends appear to be creating greater pressures on schools to retain learners, which may be jeopardising the quality of advice and guidance on post-16 options. A 2022 Estyn report found that many learners do not feel they have sufficient information about vocational and work-based learning options. This conclusion was reinforced by a recent Senedd Children, Young People and Education (CYPE) Committee report, which described that the most commonly raised concern in their inquiry was in relation to some schools with sixth forms promoting their own courses at the detriment of raising awareness of other post-16 options.

Several reports have recommended that greater partnership working between schools and colleges is needed to ensure all learners receive impartial advice and guidance about future destinations, as well as to safeguard the sustainability of a broad and accessible curriculum. Estyn's thematic review of Post-16 Partnerships in 2021 emphasized the importance of partnership working between schools and colleges to improve quality and expand learner choice, and this is a theme that was reinforced in the more recent Review of Vocational Qualifications in Wales.

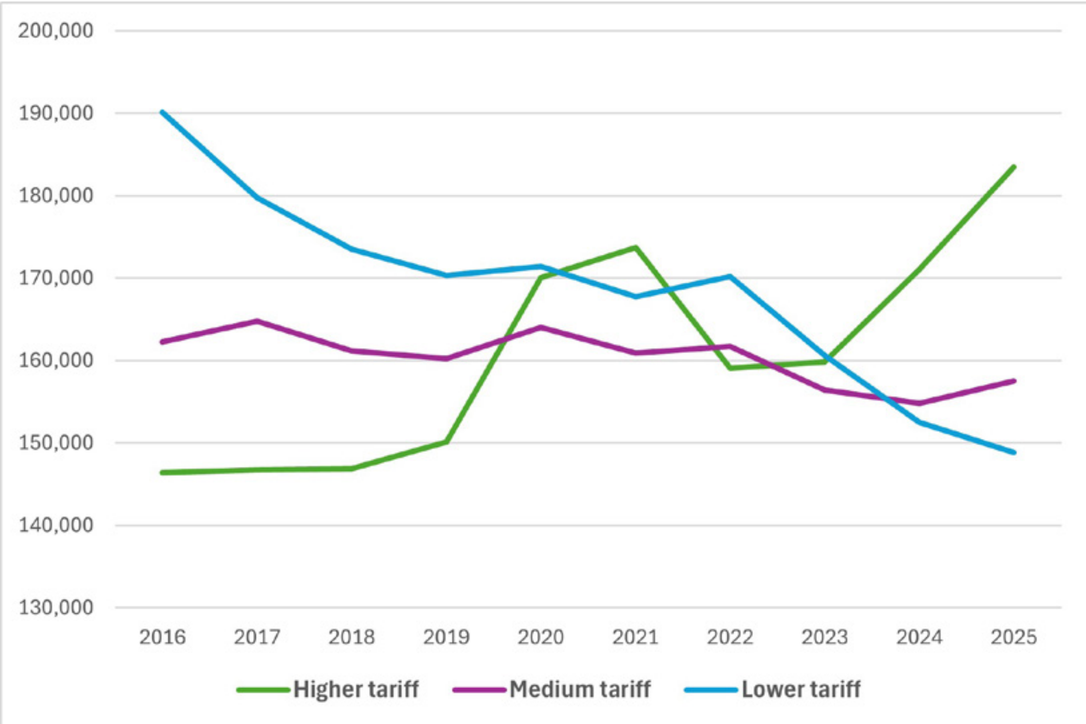
The challenge ahead is how to formalise and incentivise partnership working between colleges, schools, local authorities and other providers to maintain a broad and accessible curriculum at post-16 across all areas of Wales, building on some of the positive examples noted below in 2.3.3.

2.3.2 - Higher education student numbers
UK students

In the decade since caps on home undergraduate student recruitment were lifted in England and Wales, there has been a considerable redistribution of domestic student numbers within Welsh universities, and variation in how universities have had to respond to an increasingly competitive market.

Elite universities with strong brands and secure finances have aggressively expanded their student recruitment (typically in lower cost subjects) to reinvest in research and facilities, and so further increase their appeal, brand and league table positions.

Figure 15: UCAS accepted applicants by provider tariff group – main scheme



Source: Undergraduate end of cycle data resources 2025 | UCAS

Since the uncapping of home undergraduate entrants, a growing number of applicants have entered their preferred institution, with 82% of 18-year-olds holding an offer accepted to their first choice in 2025. Over time, learners and their advisors in schools and colleges have responded to this trend, with a growing proportion of applications now directed towards higher tariff providers on the expectation of an increased chance of acceptance. Between 2016 and 2025, accepted applicants to higher tariff universities increased by 25% while those to 'lower tariff' universities declined by 22%.

With growth in international student recruitment no longer open to many institutions since 2023 (see below), UK market competition has accelerated. Higher tariff providers have increased their numbers of UCAS acceptances by 15% in two years (between 2023 and 2025) – equivalent to 23,700 additional students. Recent data published by the Office for Students shows that larger research-intensive universities are capturing a growing proportion of the domestic student market, with smaller and more teaching-intensive universities facing declines in student numbers.

Meanwhile, lower and middle-tariff institutions have seen their enrolments decline in both proportional and absolute terms. Despite total acceptances in 2025 being only 2% (8,885 students) lower than in 2016, the 'lower' two-thirds of the UK sector by entry tariff have seen a reduction of 13% (46,015 students).

Welsh universities have seen a variance in their fortunes with only three able to grow their domestic undergraduate numbers between 2015/16 and 2023/24, and more than half seeing contractions, a disproportionate amount compared to UK-wide trends due to Wales having a relatively smaller proportion of higher tariff institutions. These long-term trends mask significant year-to-year volatility for some institutions and subjects, particularly since the Covid-19 pandemic.

The Welsh institutions with falling numbers of UK undergraduate entrants between 2015/16 and 2023/24 have seen falls ranging from 3% to 34%, despite UK-wide undergraduate numbers growing. The 2025 entry cycle saw an overall 4.2% decline in acceptances at Welsh higher education providers compared to the 2024 cycle, suggesting there is a significant uncertainty and risk regarding the sector's prospects as competition intensifies.

International students

The challenge of competing in the UK student market, the adverse impact of Brexit on EU recruitment and research income, together with growing costs and erosion in the real-terms value of domestic student fees and funding, saw many universities in Wales and across the UK turn to growth in international student recruitment between 2015 and 2024, and particularly after the Covid-19 pandemic.

Liberalisation of student visa rules regarding students' dependents and graduate work visas in 2021 led to a significant boom in international entries across the UK. There was a 48% increase in non-UK (EU and non-EU) student entrant enrolments overall between 2015/16 and 2023/24 in Wales, with one institution more than doubling its international intake, and another more than trebling international numbers. This was despite significant declines in EU student numbers of 72%.

At six out of the eight Welsh universities, the proportion of total students from overseas grew during this period. International student fee income accounted for 19% of total university income in Wales, a third of tuition fee income in 2023/24, up from a quarter of fee income in 2017/18. Much of this growth came in single-year taught postgraduate provision, which tends to be more volatile for generating income than multi-year undergraduate provision.

Student immigration rules were tightened in 2023 and 2024, leading to a sharp decrease in reported enrolments. Nonetheless, universities in the UK and in Wales will continue to rely heavily on international students for revenue. International students (excluding EU) paid £368m in fees to Welsh universities in 2023/24, representing a significant direct export. One analysis estimated a net benefit from international students to the Welsh economy of £1.3bn in 2021/22.

Home Office figures suggest that, despite the significant decreases in 2023 and 2024, sponsored study visas granted in the year ending June 2025 were still more than double that in June 2016.

The outlook for international student numbers in the UK is now unclear. Following the UK Government's most recent immigration white paper, further tightening of visa sponsorship regulation could limit capacity for significant international student growth in the medium-term. On the other hand, with the new international student levy in England, universities in Wales may have a small competitive advantage, and the most recent Home Office data suggests a small revival in study visas issued in the year to September 2025 compared to 2024.

2.3.3 – Collaboration – examples and policy challenges Further education and schools

As noted in the recent CYPE report, "a successful tertiary education and training sector in Wales depends on schools and colleges working collaboratively".

Schools and colleges in Wales are partnering to broaden curriculum options for learners at risk of disengagement or interested in vocational education.

The Junior Apprenticeship (JA) programme, now offered by seven colleges, provides 14-16 year olds with an alternative to mainstream schooling and relies on strong communication between institutions for success, particularly in safeguarding and coordination.

In addition to JA programmes, colleges also collaborate with schools to offer part-time vocational teaching, demonstrating cross-sector commitment to learner choice. There are well established part-time programmes offered by colleges across Wales including a range of vocational courses at Grŵp Llandrillo Menai and a Friday afternoon programme specialising in renewable energy development at Pembrokeshire College. The latter example relies on close collaboration with local schools on timetabling to ensure learners have the choice to go to college at the same time every week. Neath Port Talbot and Wrexham local authorities are planning to expand vocational provision with bespoke facilities for 14-16 learners.

Despite the challenges noted above, the recent CYPE Committee report notes that many schools with sixth forms actively encourage learners to explore offers from local colleges and work-based learning offers and invite external providers to come into schools to speak to pupils. This collaborative approach helps to provide a full range of post-16 options for learners.

The committee in particular noted good examples of partnerships across North Wales. £3 million in Transition Funding was allocated in both 2023/24 and 2024/25 to strengthen collaboration between schools, FE colleges, and training providers. The funding enabled activities that support the transition from pre-16 to post-16 education, such as summer programmes, masterclasses and college taster days.

Higher and further education

As noted in chapter 2.4, many universities are cutting back on costs and in particular specific subject areas in response to both financial pressures and market competition. Often, institutions are making restructuring decisions independently. This risks some subjects disappearing from Wales entirely, where coordinated action to achieve greater economies of scale might provide opportunities to maintain a broad subject range. The British Academy notes that 'parts of the North, South West and East of England, as well as large areas of Wales, Scotland and Northern Ireland, are particularly affected by cold spots for the humanities in higher education'. The provision of a broad curriculum in higher education being available locally in Wales may be of increasing importance given UCAS findings suggesting a growing proportions of applicants intending to live at home.

Universities UK has highlighted the challenges for effective planning and efficiency in an increasingly competitive environment:

"The intensity of competition has resulted in universities pursuing very similar and expensive business and operating models, and less, rather than more, differentiation across the higher education sector... In some cases, this can come at the cost of enhancing an institution's own unique strengths while inhibiting creative approaches to teaching, research and operations. It can also create tension with wider national interests, including activity that could benefit economic objectives and wider society but may not translate into student demand, such as provision of highly specialised, niche skills to meet the needs of certain industries."

One way of addressing these challenges is through greater collaboration. This can involve a range of arrangements, from a loose alliance of independent institutions working towards common goals, to formal governance structures operating across different campuses with autonomy for the constituent parts, and other examples in between.

Examples of formal collaborative structures in Wales include:

- The University of South Wales Group operates three campuses and two wholly owned subsidiaries – The College Merthyr Tydfil and the Royal Welsh College of Music and Drama.
- The University of Wales Trinity St David Group is a merger of three institutions – the University of Wales Lampeter, Trinity University College Carmarthen and Swansea Metropolitan University – and operates across different campuses. UWTSD now operates as part of a group with Coleg Sir Gâr and Coleg Ceredigion.

There are also examples of looser collaborative arrangements, including but not limited to:

- The North Wales Tertiary Alliance brings together Bangor University, Coleg Cambria, Grŵp Llandrillo Menai and Wrexham University over four years with the aim of better aligning further and higher education in the region.
- The Wales Innovation Network (WIN) is a network of all Wales' universities to facilitate collaboration on research and innovation.
- Collaborative provision such as the National MA Education (Wales), collaboratively developed by seven universities in Wales. There are also several Wales-wide doctoral training partnerships.

The Competition and Markets Authority (CMA) has clarified that there are a range of collaborative activities between education providers which would not fall within the scope of competition law, and has committed to providing further advice.

The Welsh Government largely concurs with the UK Government's view that higher and further education institution should seek opportunities for regional collaboration and increased specialisation where appropriate, with the goal of maintaining broad overall regional and national provision.

That is why The Welsh Government asked Medr to undertake a mapping exercise exploring the demand for provision and distribution of subject areas across higher education in Wales, expected to be published in February. This exercise is intended to support our understanding of the provision of different subject areas within Wales, and where appropriate, support collaborative efforts to sustain a broad and accessible offer across the Welsh sector.

2.3.4 – Summary: collaboration and competition

- The tertiary education sector in Wales is experiencing significant shifts in learner numbers, subject preferences, and demand, with variations in trends across school sixth forms, further education, and universities. Competition in this environment may be detrimental to the long-term sustainability of some providers and provision.

- School sixth forms are generally seeing a decline in enrolments. Some local authorities are reviewing the organisation of their post-16 provision, with implications for curriculum breadth and accessibility, including Welsh-medium education. Further education colleges are attracting a growing proportion of post-16 learners.

- Competition between schools and colleges may be undermining the need to provide young people with clear, impartial advice on their post-16 options.

- Market competition between universities across the UK and aggressive expansion by some higher-tariff universities has had a damaging effect on the financial position of some institutions and the sustainability of some courses, particularly in Wales. Unplanned and uncoordinated restructuring of provision may risk 'cold spots' in provision.

- International student recruitment has become increasingly important for university finances, though recent regulatory changes means that further growth cannot be relied upon.

- There are many existing examples of effective collaboration between schools, colleges, and universities, which can help broaden curriculum options, ensure impartial guidance for learners, and create cost efficiencies.

2.4 Financial sustainability

The Welsh Government spends approximately 5.2% of its fiscal resource on tertiary education and apprenticeships, totalling £1.116bn in revenue support alone in 2025-26.[1]

The Welsh Government has also invested £251m in the estates of further education colleges since 2014 through the Sustainable Communities for Learning Programme, with a further £90m committed to upcoming projects.

Outside of its core budget, the Welsh Government provides extensive support for institutions and students through student loans. Total student loan outlay increased from £819m in 2020-21 to £963m in 2024-25 and is budgeted to exceed £1bn in 2025-26.

Nonetheless, recent years have seen substantial financial challenges for providers across the sector: schools, colleges, and universities. Costs continue to increase, and per-student income has been squeezed.

Despite improved budget settlements in recent years, the medium-term outlook for public finances remains challenging. Meanwhile, there are growing pressures on the sustainability of student loan outlay and repayments, with no capacity for increases in student loan borrowing which exceed UK Government policy for England, and continued cost of living pressures on students themselves.

Given limited public resources, the Welsh Government must prioritise future funding in tertiary education. If we cannot indefinitely expand funding to support all forms of provision and support, choices must be made about where investment will have the greatest impact. These are not straightforward decisions – all approaches present benefits and trade-offs for learners, communities, and sector sustainability. And there will be a growing need for providers to maximise funding provided through judicious planning, efficiencies, and in some cases collaboration with other providers, to maximise the value of government and learners' investments in education and training.

2.4.1 – Financial pressures on institutions
Schools

Funding for post-16 provision is consistent across colleges and schools, to maintain parity of quality in provision regardless of how learners access their education.

Although only a small proportion of overall activity, financial pressures on schools will have increasing implications for post-16 provision. School reserves fell by 43% between March 2024 and March 2025, to £66m. The number of schools with deficit budgets has increased from 309 to 393. 27% of schools across Wales are in deficit positions.

Falling learner numbers and class-sizes will likely create further pressures on school finances and resources in post-16 provision, particularly for ensuring a broad and accessible curriculum. Costs are expected to continue to increase in relation to pay, ALN, school transport and energy costs. Further costs are likely to be incurred where local authorities are seeking to ensure Welsh language post-16 provision.

Colleges

Further education colleges in Wales are primarily funded by the Welsh Government through Medr, which allocates core funding based on learner numbers, programme types, and strategic priorities. Colleges are more directly reliant on government funding than universities, with 85% of their income coming from Welsh Government sources.[2]

Additional allocations to the sector in recent years have primarily been made to continue pay parity with schoolteachers and increased learner numbers. Funding increases have been made to 'statutory' full-time funding (primarily for 16-19-year-olds), through increases in the rate of funding to reflect pay awards for teachers, and forecast increases in the numbers of learners (due to both demographic growth and a growing proportion of learners entering college at 16). Funding allocated to colleges for full time programmes increased from £212m in 2019/20 to £280m in academic year 2024/25, and will increase to £313m in 2025/26.

However, colleges are encountering increasing financial challenges as rising costs continue to outpace these increases in core grant income. These cost pressures stem from a significant growth in learner numbers over the past two years, exceeding the allocations set by the current funding model. Additions to the core grant in relation to pay do not extend to staff funded by non-core or non-government sources. Growth in learner numbers at lower levels, as well as more complex learner needs, has increased the costs of learner support. Many colleges had to increase provision of transport services, and funding for part-time and other non-core provision has also been squeezed.

Given these increased costs, colleges' collective liquidity is declining, with staffing costs growing as a percentage of income and expenditure. Colleges have run several voluntary redundancy schemes in recent years to maintain a balanced operating budget.

Medr is responsible for monitoring the financial health of the FE sector and has previously reported that colleges continue to be financially sustainable in the medium-term. 12 of 13 colleges in Wales ran an operating surplus in 2023/24, and colleges' liquidity positions largely remain healthy. However, these surpluses (and overall liquidity) have fallen since the pandemic, indicating a tightening financial position that is likely to continue on current trends. The sector's net operating surplus decreased from 7% in 2021/22 to 2.2% in 2023/24, with net liquidity days falling to 104 days.

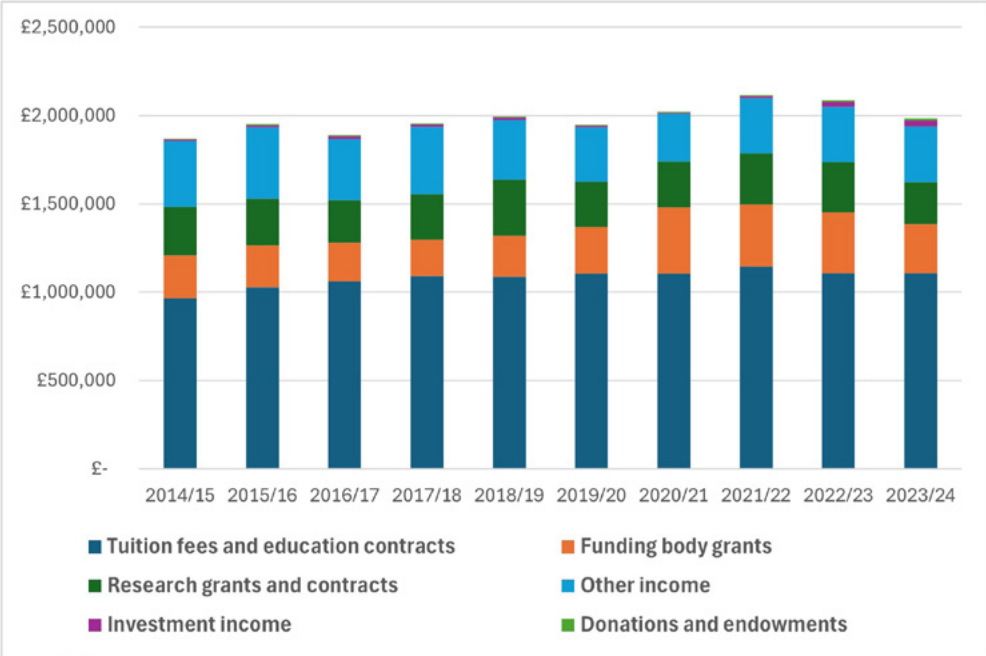
Universities

Financial challenges in the higher education sector have been accelerating over the past two years. Total sector income fell by 6% in real terms between 2021/22 and 2023/24, the latest year for which published accounts are currently available. Six out of eight universities reported an underlying deficit in 2023/24, the most recent year of published accounts.

[1]Total Welsh Government revenue budgets for tertiary education in 2025-26 totalled £1.116 billion, representing roughly 5.2% of total Welsh Government fiscal resource (£21.533 billion). Source: Welsh Government Final Budget 2025-26.

[2]Welsh Government analysis of 2023/24 consolidated accounts.

Figure 16: Total higher education sector income and income sources. (£000s) FY 2023 prices.



Source: [HESA Finance data](). , GDP deflator.

The most immediate cause of the current financial pressures is a downturn in international student recruitment, particularly in postgraduate enrolments. This is exacerbated by increased competition from other institutions and the potential impact of reforms to immigration policies, such as higher compliance thresholds, which could further reduce international intake. Six institutions in Wales have a relatively high exposure to international recruitment, with over 30% of their fee income from international fees - the highest representing 44% of total tuition fee income in 2023/24.

As also noted above, recruitment of home students has also become more uncertain due to market competition. But this funding has also been squeezed following a decade of real-terms decline in the value of tuition fees from 2012/13 to 2024/25.

Although a small proportion of overall income, Welsh Government funding has also been squeezed in real terms since 2022/23, after increasing between 2018/19 and 2021/22 following the implementation of the Diamond Review recommendations.

Nonetheless, due to student maintenance grants, Welsh Government direct support for the costs of higher education per student are just over double the contribution from the exchequer for students from England, but half the contribution of students in Scotland. London Economics analysis of the 2024/25 academic year found that, between the costs of teaching grants, maintenance grants, and expected write-offs of student loans, the average split of costs for new students entering higher education from Wales was approximately 56% for government, and 44% for graduates. In England, costs are overwhelmingly borne by graduates, whilst in Scotland and Northern Ireland, they are predominantly borne by the state.

Meanwhile, the analysis shows that estimated HEI income per full-time undergraduate in 2024/25 was £9570 in Wales, 6% lower than in England, but 18% higher than in Scotland.

Figure 17: Average HEI income per FT home undergraduate 2024-25

	England	Scotland	Wales	Northern Ireland
Cost of bursaries	-£90		-£200	-£110
Av. teaching grant	£1,070	£6,020	£520	£5,420
Tuition fee	£9,250	£1,790	£9,250	£4,750

Source: [Funding of tertiary education in Scotland: What can we learn from elsewhere in the UK? - London Economics]

As noted below in section 2.5, the loss of European Structural and Investment Funds and the need to increase UK research council income have created additional challenges, as research activities remain loss-making and require cross-subsidy from other income streams. [Total research income] in Welsh universities fell by £32m between 2022/23 and 2023/24, primarily due to a fall in income from EU sources (further details in 2.5.3).

As with colleges and other publicly funded services, universities have also seen mounting cost pressures. Universities did not receive any additional public funding in England or Wales to compensate for the increased costs of employers' National Insurance Contributions (NICs) in 2025-26, estimated to cost the Welsh sector £20m. Parts of the Welsh higher education sector also saw increases in Teachers Pension Contributions totalling an estimated £6m in 2024/25, which are also not supported by public funding unlike in colleges and schools.

Necessary restructuring and investment to maintain financial sustainability also comes with significant upfront costs, while institutions are reporting deferrals to maintenance and other routine capital investment which could in the long-run deliver revenue savings. A tighter revenue position will in the long-run restrict capital and infrastructure investments in the sector, which does not receive the same levels of government capital investment as other parts of the education sector.

The financial challenges facing universities are not unique to Wales. The Universities UK Transformation and Efficiency Taskforce survey of universities found that 49% of respondents had closed courses and 89% would consider doing so in the next three years, and 19% have cut back on academic research and development, with a further 79% saying that they may consider this in the next three years. Universities also reported scaling back on maintenance and infrastructure investment and had undertaken structural change with 18% closing departments, 42% selling physical assets and 25% having made compulsory redundancies, with more jobs lost via voluntary exit agreements.

2.4.2 – Sustainability of student support
Student loan outlay

The Welsh Government offers a generous and progressive student maintenance support package for undergraduate and postgraduate students. This support is designed to help with living costs such as rent, food and travel, and is made up of a combination of non-repayable grants and repayable loans, with the balance depending on household income. Whilst all undergraduate students receive the same total amount of support, those from the lowest income households receive higher grants and graduate with the lowest debts. In contrast, English policy raises the maintenance loan ceiling for students from lower-income households, meaning these students leave higher education with the largest debts.

Student grants are funded by The Welsh Government's core resource Department Expenditure Limit (RDEL). The Welsh Ministers are at liberty to determine the size of this expenditure within their overall management of the Welsh Government budget, although actual expenditure is subject to student demand.

Funding for student loans outlay is provided as capital Annually Managed Expenditure (AME or CAME) by HM Treasury (HMT) to The Welsh Government. Funding provided by HMT for AME programmes cannot be used for any other purpose.

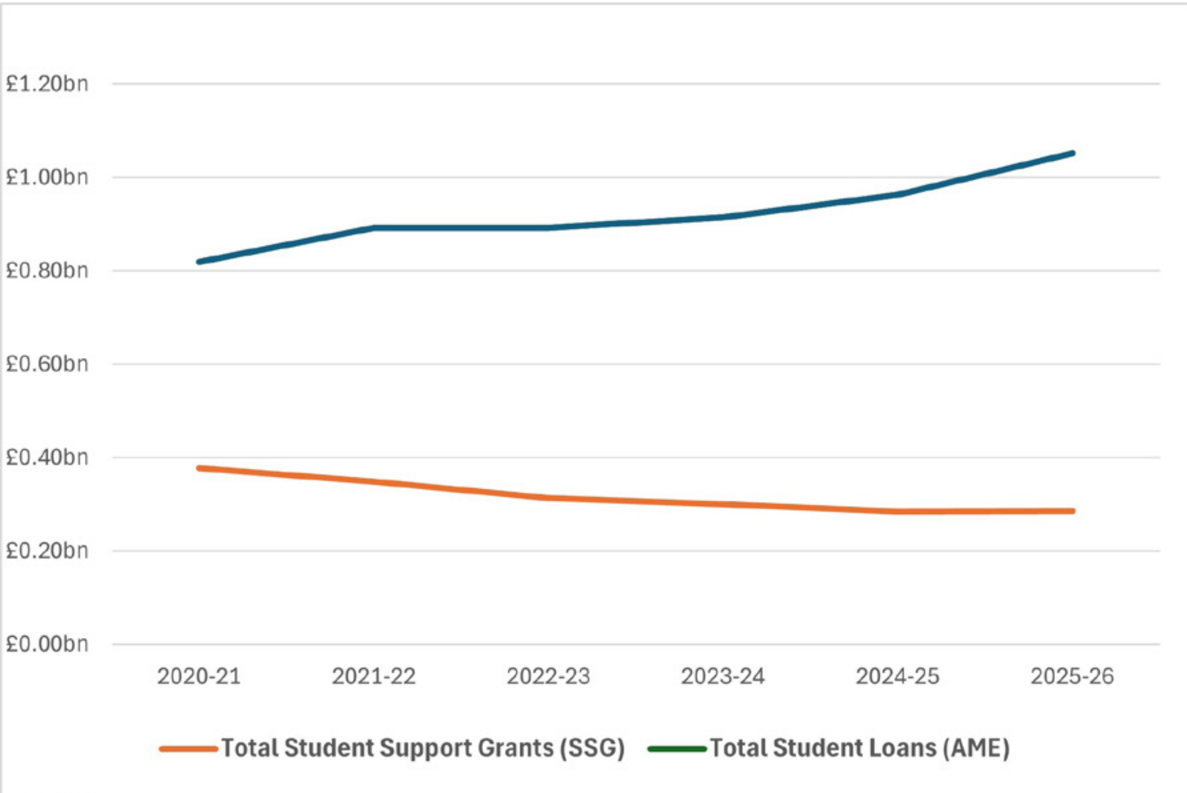
The Statement of Funding Policy outlines that HMT will cover devolved governments' AME costs where the devolved government offers "broadly similar terms [to UK Government/England]" for an AME programme.

Since the introduction of The Welsh Government's current funding policy in 2018, the value of student grants and the household income eligibility thresholds for grants have remained frozen, and thus subject to 'fiscal drag' with inflation. Meanwhile, total maintenance support between 2018/19 and 2024/25 increased in line with the National Living Wage. In 2025/26, grants remained frozen, whilst total maintenance support was increased by the forecast Consumer Price Index (CPI). In 2026/27, both grants and total maintenance support will be increased by forecast CPI.

Therefore, The Welsh Government student loans outlay has risen significantly in recent years, particularly for full-time maintenance loans, as both total loan entitlements have increased and the proportion of students eligible for the largest loan amounts has also increased along with household incomes. Fiscal drag has also reduced the numbers of students eligible for the largest amounts of grants, leading to a decline in grant expenditure. Student grants have fallen from 32% of total student support expenditure in 2020-21 to 23% in 2024-25, while loans have increased from 68% to 77%.

In 2024-25, total Welsh Government expenditure on student grants was £284m. Total grants expenditure has fallen by 25% in cash terms since 2020-21. Grant expenditure is forecast to continue to fall in future years under current policy, with fewer students eligible for the higher-levels of grant as the income-thresholds are unchanged.

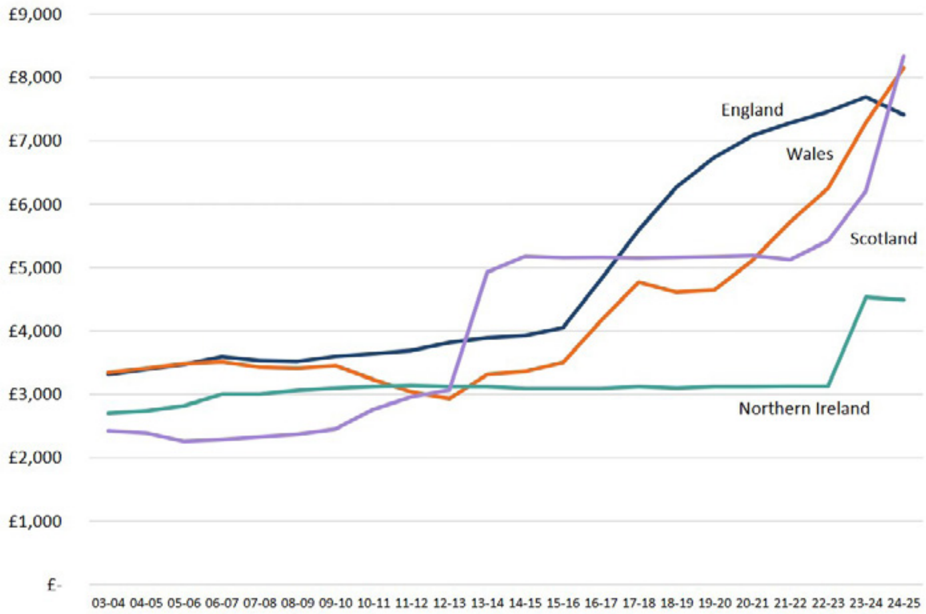
Figure 18: Student Support Grant & Student Loan Outlay since 2020-21 (2025-26 = budgeted)



Source: Welsh Government finance data

A consequence of reduced real-terms grant expenditure is continued growth in student loans outlay. The average annual maintenance loan for a full-time undergraduate student from Wales increased by 59% from £5,110 to £8,150 between 2020-21 and 2024-25, exceeding the England average for the first time. Total student loan outlay increased from £819m in 2020-21 to £963m in 2024-25, and was budgeted to exceed £1bn in 2025-26.

Figure 19: Average amount of full-time maintenance loan paid to students by country providing support (domicile) – academic years 2003/04 to 2024/25



Source: [Student loans - UK comparisons - to academic year 2024/25 - GOV.UK]

The Welsh Government models the counterfactual application of UK Government policy to its forecasts to ensure that its projected loan expenditure remains within HM Treasury limits. The Welsh Government's most recent analysis found that projected Welsh student loan outlay based on current Welsh and UK Government policy is now (within a margin of error) nearly equal to the modelled UK Government policy counterfactual.

Given the uncertainty involved in such modelling, this means that The Welsh Government can no longer afford to increase overall student loan outlay at a greater rate than The UK Government. The UK Government has announced that maintenance loans for English domiciled students will continue to rise by inflation for the remainder of the current parliamentary term. These financial constraints present a challenge for ongoing student support policy in Wales.

Student loan repayments

In 2023/24 the UK Government introduced the Plan 5 student loan repayment policy for new English-domiciled borrowers. Plan 5 significantly altered the principles underpinning student loans, by increasing the expected lifetime repayments of lower and middle-income earning graduates (particularly women) whilst reducing expected repayments for higher earning graduates.[3]

The Welsh Government has maintained the Plan 2 repayment policy, first introduced in 2012/13, which maintains a higher repayment threshold, a shorter repayment period, and a real-terms stepped interest rate. This maintained a relatively progressive profile of student loan repayments for Welsh-domiciled graduates and reduced the repayment requirements for lower- and middle-earning graduates.

In the 2025 budget the UK Government announced that the Plan 2 loan repayment threshold would be frozen from 2027 to 2030 for borrowers in England, bringing more borrowers into repayment and increasing the repayment obligations of those already making repayments. This will reduce the difference between the Plan 2 and Plan 5 repayment thresholds in England.

Changes to graduate repayment policy can be significant for graduates' personal finances. Freezes to the repayment threshold and interest rate thresholds for Plan 2 borrowers announced by UK Government in 2022 increased average graduate lifetime repayments by a projected £11,600.

Repayment terms for Welsh borrowers remain within the powers of The Welsh ministers. The Welsh Government is in discussions with HMT and the Department of Education regarding the implications of the Plan 2 threshold freeze decision for Wales. Nonetheless, the UK Government's decision demonstrates the increased pressure to ensure that the long-term costs of the student loan book remain sustainable. The Welsh Government's ringfenced-resource DEL expenditure on student loan impairments must remain within budgetary limits set out by HMT in the Statement of Funding Policy. This places a further limit (in addition to the outlay constraint outlined above) on any increased loan expenditure, as well as the extent to which the repayment terms can continue to remain progressive.

Combined, these pressures will likely require The Welsh Government to review and amend its ongoing policy on student support outlay, and student loan repayments, to maintain appropriate controls on expenditure and continue a policy that aligns with Welsh Government's policy aims.

2.4.3 – Student funding and cost of living Schools and further education

As highlighted in other parts of the paper, a significant proportion of overall Welsh Government grant and loan expenditure for tertiary education supports students in higher and further education with the costs of living whilst learning.

In further education, recent evidence suggests significant and growing cost pressures for learners seeking to access post-16 education. Learners from more disadvantaged backgrounds are already significantly less likely to progress into post-16 education, though this is likely due to a range of factors which include living cost challenges.

[3] An important quirk of the student loans system is that accrued interest is paid back by higher earners. Under Plan 2, many borrowers have their interest written off. Nonetheless, student loan interest rates come in for significant criticism due to their effect on the bottom line of graduates' loan statements.

A Welsh Government commissioned review of the Education Maintenance Allowance (EMA) highlighted that cost-of-living pressures are a significant barrier for learners in post-16 education, particularly those from lower-income households. Rising prices for essentials such as food, transport, and learning materials were found to exacerbate financial stress, making it harder for students to remain engaged and complete their courses.

A growing proportion of EMA recipients – 76% - are in FE colleges, a much higher proportion than the overall population of learners aged 16-18 in education. 31% of EMA approved applicants were studying either A or AS level qualifications during the 2023/24 academic year. Just under a quarter, at 23%, were studying for a BTEC qualification and another quarter, at 24%, were studying for an NVQ.

EMA is seen as an important source of support, but many learners reported in the review that the current weekly payment only partially offsets these pressures. The review noted that without EMA, some students would struggle to afford travel or basic necessities, and recommended maintaining the allowance. The Welsh Government has since increased the household income thresholds for EMA eligibility.

Other sources of financial support for post-16 learners are available, such as the £7m Financial Contingency Fund (FCF). The FCF is designed to support learners facing financial hardship or at risk of leaving their courses due to financial pressures, and is distributed by colleges in line with Medr guidance. The Welsh Government also provides the Welsh Government Learning Grant (WGLG) for adult FE learners, with a review of this support due to be published in March 2026.

Expenditure from this fund points to the most significant cost pressures for learners, with nearly 40% supporting transport, 20% food, and 15% childcare. Colleges are increasingly reporting that the funding available is insufficient to meet demand.

Colleges have also reported an increase of more than £3.2m in transport costs over the past year. The Welsh Government has sought to ease the costs of travel for learners and young people by introducing a pilot fare scheme for 16–21-year-olds since September 2025 and further extending the scheme to 5–15-year-olds from November 2025. Tickets cost £1 for a single and £3 for day ticket travelling with participating operators. Although the pilot project has been welcomed, some stakeholders have noted that it will not address all the transport challenges facing post-16 learners. The forthcoming independent evaluation of the Young Person's Fare Scheme will specifically consider the impact of the scheme on young people's access to post-16 education and training.

While stronger partnership working could help remove barriers that prevent young people from understanding and accessing the full range of post-16 options, it may also lead to increased travel if more learners choose institutions outside their local area. The Children, Young People and Education (CYPE) Committee addressed transport as a barrier to education in its work, and The Welsh Government has commissioned analysis into the distance required to travel to tertiary education institutions across Wales, to understand geographical variations in travel requirements. This is due to be published alongside a rapid evidence review into learner transport in March 2026.

Higher education

In higher education, Welsh Government student maintenance support has outpaced inflation since 2016, and Wales provides the greatest proportion of living costs in both minimum and maximum maintenance support of any UK nation. Welsh 18-year-olds are the least likely applicants to higher education to state an intention to live at home.

Nonetheless, student maintenance support only covers for 63% of expected costs for Welsh first year students who live and study away from home in Wales.

As in further education, there is emerging evidence of increased cost of living pressures for higher education students across the UK. These pressures were increasing prior to the pandemic but have grown since 2021 with higher levels of inflation.

The proportion of students reporting being in paid employment during term time has doubled compared to 2021 to 68%.

According to one survey, one in six higher education students work to financially support their families. A 2023 NUS Wales survey found that 8% of Welsh students have experienced homelessness, and 32% reported failing to pay rent at some point in the 2022/23 academic year.

The Welsh Government is currently undertaking an evaluation of the student support elements of the Diamond Review, to understand if and how the enhanced student support package introduced in 2018 has enabled and improved students to access higher education and avoid financial barriers. The findings of that work will be published in Spring 2026.

In addition to government provided student support, universities also provide additional means-tested financial support, including bursaries, scholarships, and hardship funds. Given the pressures on the costs of student finance outlined above, together with ever growing costs of study, there are therefore significant challenges in considering how Welsh Government can continue to ensure that the cost of living is not a barrier to education participation.

2.4.4 – Summary: financial sustainability

- The Welsh Government continues to invest substantially in tertiary education and apprenticeships, including funding for revenue, capital, and student loans.

- Financial challenges are growing for schools, colleges, and universities, driven by rising costs, squeezes in per-student income, and in some instances, falls in student numbers.

- Further education colleges face pressure from increasing learner numbers and complex support needs, with limited non-core funding available. Despite general financial stability, colleges report shrinking surpluses and liquidity, indicating tighter financial conditions.

- Universities have seen a squeeze in real-term per-student income, as well as increased domestic and international competition and the loss of European research funding, leading to significant cost-cutting and restructuring.

- Welsh Government student support has become increasingly reliant on loan increases, but budget constraints limit further expansion. Welsh loan repayment terms remain more progressive than in England, but may require review.

- Cost-of-living pressures remain significant to learners, particularly those from disadvantaged backgrounds. Recent initiatives to lower travel costs and increase living cost support (EMA and WGLG) for learners have helped, but broader access and affordability concerns remain, with further analysis ongoing.

- Despite relatively generous maintenance support compared to the rest of the UK, financial hardship and increased student employment continue in higher education due to cost-of-living pressures.

- With a constrained long-term outlook for the public financials, The Welsh Government will need to consider where investment in tertiary education institutions and student support will have the biggest impact.

2.5 Delivering for communities and the economy of the future

The links between the skills and qualifications provided by tertiary education and improved economic outcomes are well established. This places the Welsh tertiary education system in a key position to improve the wellbeing of future generations, by improving earnings through greater productivity enabled by higher skills and research and innovation.

A large body of evidence, including survey and administrative data, is used by researchers to show the private and societal economic benefits of higher education. However, there is less analysis and research into the different economic outcomes of many further education pathways.

Across both sectors, labour market outcomes are understood to vary considerably. However, public resources are often allocated in a relatively equal manner, with limited targeting towards either the highest social or economic returns, or the greatest needs in public services. In higher education, the relatively progressive nature of the student loan system naturally means that public subsidy is greatest where private returns are lower.

Meanwhile, forthcoming UK Government reforms to research funding, following EU withdrawal and a continued decline in research cost recovery, requires greater prioritisation in research and innovation activities to maximise Wales' relative competitiveness and to align with emerging priority sectors in the economy.

There is therefore a challenge to maximise public investment returns for economic growth across both teaching and research, and ensure that resources are not going towards provision with more limited private and public benefit whilst areas of clear skills needs or high economic value remain under resourced.

2.5.1 – Vocational pathways

As noted above, a growing proportion of young people in Wales are entering post-16 education undertaking vocational qualification pathways, often starting at level 2 and below. Vocational education and training, both in further and higher education, plays a vital role in directly supporting the Welsh Government's economic mission and contributing to a stronger, fairer and greener Wales.

However, there are continued gaps in policymakers', providers', and learners' understanding of the economic and employment outcomes of different qualification pathways by subject, sector, and level, and if and how particular skills demands should be enabled and incentivised through planning and funding.

The 2023 'Review of Vocational Qualifications in Wales' found that the absence of a coherent national strategy has led to fragmented provision and difficulty aligning qualifications with economic needs. There is a gap between available qualifications and labour market needs, caused by outdated information, poor alignment with demand, and limited flexibility. Welsh-medium and bilingual options are increasing, but access to qualifications and resources to support delivery varies. The qualification system is complex and difficult to navigate, with many low-uptake courses and unclear progression routes, as well as inconsistent advice and guidance leading to challenging transitions between school and post-16 vocational education and training.

The Welsh Government is working closely with stakeholders to produce a ***Prospectus for the Strategic Direction of Vocational Education and Training in Wales*** which will be published in Spring 2026. This will complement our wider call for submissions in this paper and take further account of reforms to vocational and applied general qualifications in England, including the introduction of V-Levels to replace existing applied general qualifications.

2.5.2 – Labour market outcomes of tertiary education

In 2024, 55% of working age adults without any qualifications were unemployed or economically inactive. This figure drops to 35% for those with qualifications below Level 2 and to 15% for those with qualifications up to levels 4-6. This highlights the strong connections between basic skills and employment.

There is also a wide evidence base quantifying the link between basic skills and employment and earnings. Analysis showed that learners who achieved Level 1 or Level 2 English and Maths qualifications, particularly when studied alongside higher-level qualifications, experienced notable earnings benefits and a reduced likelihood of being on benefits. This is also the case when combined with other vocational qualifications, further emphasising the importance of basic skills in creating a productive and prosperous Wales. OECD research globally shows a strong link between increased productivity and improved basic skills.

We understand less about labour market outcomes for many vocational qualifications through further education, particularly in Wales. For example, the geographical breakdown of graduate earnings in order to estimate demand, has not been repeated to the same extent for other pathways. Due to the range of local labour market needs there is likely to be large variation in the benefits that learners and local economies experience from increased participation in a broad and varied range of courses.

Learner destination statistics from Medr show that work-based learners had a much higher sustained employment rate (89%) than compared to further education and sixth form leavers (55%). Going further in linking to outcomes, such as earnings, and controlling for factors such as personal characteristics, or subjects would point to where to most valuable use of resources sits. If publicly available, this information could also help learners make more informed decisions.

At a UK level, the graduate premium still exists on average, however this varies substantially by subject and institution. One in five UK undergraduates are projected to have been financially better off if they did not attend higher education, but one in ten will on average gain more than half a million pounds in discounted present value terms. Recently, research and discourse has started to question the measurement, and even the magnitude of the "graduate premium", the average extra earnings associated with a degree. There are also a wide range of important and highly valuable social benefits, such as reduced health spend and lower crime rates and should be quantified in any assessment of the returns to education at all levels.

Research analysing regional differences in graduate supply and its effects on economic growth has found a negative correlation between the number of graduates and the graduate wage premium over time, although overall average returns remain positive. However, returns have not declined in London and Wales. This indicates that in Wales, the supply of graduates has not outpaced demand, as seen in other UK countries and English regions except London. This points to a lack of graduates, not only in STEM degrees but others such as Law, Finance and Management. Overall, this may constitute a binding constraint on economic growth in Wales unlike elsewhere in the UK.

However, the mobility of more highly educated people means that some benefits of increasing education attainment levels might accrue to other regions, particularly London. In 2022/23, 27% of Welsh graduates, 16% of Northern Ireland graduates and 11% of Scottish graduates worked outside of their original country of permanent address Whilst 2% of graduates with a permanent address in England worked outside of England, this masks significant regional mobility of graduates towards London and the southeast within the UK. Graduate mobility, however, is feature not a bug of the system. Higher mobility results in well matched jobs and higher productivity at the aggregate UK level, but it may be one reason why apparent demand for graduates remains relatively high within Wales.

Shifting technological and economic trends create uncertainty about the quantity and type of future jobs, leading to difficulty in successfully predicting future labour markets. As a result, investing public funds in skills programs based on such projections risks inefficiency. The challenge for skills planning is to identify the most immediate and direct skills needs, whilst creating a broad base of skills infrastructure and adaptable skills and knowledge ready to face an unpredictable future.

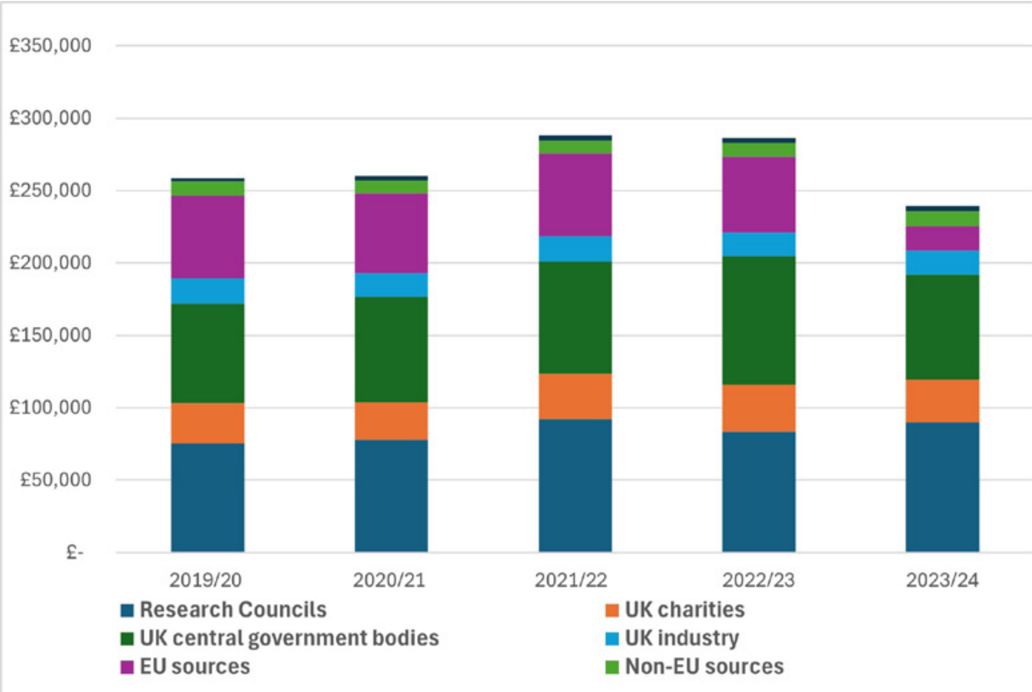
2.5.3 – Research and Innovation

University research receives funding mainly from government, business, industry, and charities.

In Wales, the two elements of the 'dual funding system' are split between UK and Welsh Government. Competitive grants are provided by UK Government, primarily from UK Research and Innovation (UKRI), whilst un-hypothecated block grants such as quality-related (QR) funding, the Research Wales Innovation Fund (RWIF), and postgraduate researcher funding are provided by the Welsh Government via Medr.

QR funding is awarded based on research quality assessed by the Research Excellence Framework. It is intended to provide stability and flexibility for institutions, helping support applications for competitive awards. Universities also receive research funds from charities and businesses.

Figure 20: Welsh Higher Education providers, research grants and contracts by source. (£000s) adjusted to FY 2023 prices. Excluding Medr funding.



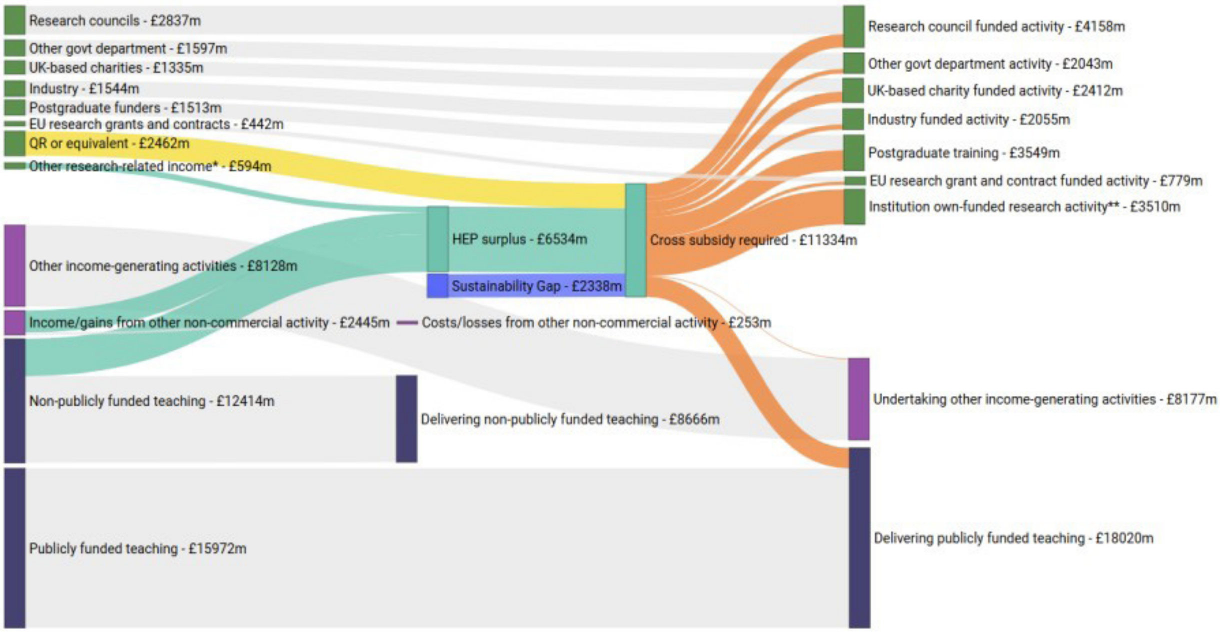
Source: [What is the income of HE providers? | HESA]

Historically, European Union funding was a significant element of research funding that institutions in Wales were able to obtain given the relative levels of economic disadvantage. Welsh universities had a large percentage of EU structural and development funds for research and innovation (estimated to be between 17% and 22% of the UK's total allocation, and a substantial proportion of Wales' total EU structural funding) compared to the rest of the UK. Universities drew on QR funding to support the administrative capacity needed to manage EU funding, reducing the amount available for building and retaining capacity focused on more competitive sources.

With EU structural funding having come to an end, Welsh universities must pivot towards other sources of competitively awarded funding. There is evidence of some success in this in recent years, with research council grants to Welsh universities increasing by £27m (42%) between 2019/20 and 2023/24. However, Wales still receives a disproportionately low amount of UKRI competitive grants, at 3% compared to 4% of research active staff and 5% of the population. The proportions are even lower for some of the largest UKRI councils, which often require a greater scale of bid to be competitive, such as Engineering and Physical Sciences, and Biotechnology and Biological Sciences.

There is also an issue of cost recovery in research activity. UKRI grants are expected to cover only 80% of the full economic cost of activity. However, cost recovery has fallen over the last number of years across the UK to 67%, and research has become increasingly reliant on cross-subsidy from universities' other income sources – primarily international student fees. The situation is worse for charity funding where cost recovery is lower.

Figure 21: Research financial sustainability TRAC data 2023 to 2024 AY



Source: [Research financial sustainability TRAC data 2023 to 2024 – UKRI]

The UK Government has set out new priorities for research and innovation funding which are intended to address this cost deficit and ensure greater value and impact. These measures will have significant implications for the Welsh higher education sector.

UKRI funding will be increasingly directed to support priority missions, and there is an expectation that universities develop specialisms to gain this funding. The aim will be to reduce duplication and improve genuine specialisation to build critical mass and world-leading research and innovation excellence.

This suggests that more specialisation will be needed in Welsh institutions as will collaboration between them, utilising structures such as WIN, and with institutions sharing specialisms with providers in the rest of the UK to be better placed to compete for UKRI funding.
Welsh universities have existing strengths in research and innovation aligned to the UK Government's industrial strategy priority sectors. These can form a strong basis upon which to improve overall competitiveness for grant funding, and to align research activity with economic development in local regions. Examples are the advanced manufacturing and semiconductor cluster in the south east Wales, clean energy in south west Wales, and the creative industries.

The UK Government has confirmed £547m of local growth funding will be made available to the Welsh Government over three years between April 2026 and March 2029. Local Innovation Partnerships will strengthen collaboration between businesses and universities, with Cardiff Capital Region allocated £30m, which will play a central role in driving R&D and commercialisation.

The Welsh Government has consulted on our investment proposals for a Local Growth Fund in Wales that will also require collaboration for delivery between a number of partners from local government, business and social enterprise, the third sector, and higher and further education.

2.5.4 – The emerging impact of AI

Generative artificial intelligence (AI) is already transforming higher education and further education. Its emergence has raised profound questions for curriculum design, assessment, learner support, academic integrity, and fundamental questions of trust in the products of education institutions. AI is also to creating significant uncertainty regarding future skills needs and job prospects for younger workers, including graduates.

However, AI also creates opportunities to increasingly personalise learning resources and student support, streamline administrative processes, and improve data analytics within education institutions.

The Welsh Government wants to understand more about how tertiary education institutions are both confronting the challenges of generative AI, as well as leveraging its benefits.

2.5.5 – Summary: Delivering for the economy

- Tertiary education in Wales is crucial for enhancing economic outcomes and future wellbeing through its impact on productivity and earnings.
- Substantial evidence supports the private and societal economic benefits of higher education, but less is known about the varied outcomes of different further education pathways.
- Returns on education differ significantly by subject and qualification type; some areas yield high economic benefits, while others offer more limited returns, and in a minority of cases, negative returns, with significant public subsidy.
- Public funding is generally distributed evenly across courses and qualifications, with limited alignment to actual economic or social returns.
- Prospective learners may struggle to access or interpret data on outcomes, potentially leading to inefficient resource allocation and missed opportunities in areas of high skill need.
- Vocational education and training are increasingly popular and play a vital role in meeting Wales's economic priorities, but provision is fragmented, and alignment with labour market needs is inconsistent. There is a lack of clear progression routes, uneven access to bilingual options, and inconsistent guidance for learners pursuing vocational pathways.
- Research and innovation funding in Welsh universities is shifting in response to changes in UK and EU funding, with increasing emphasis on specialisation and collaboration to secure competitive grants. The Welsh Government and the HE sector need to work together to best secure UK-wide income and focus on areas of key strength, aligned with economic priorities.
- Technological and economic changes, especially the rise of AI, are creating uncertainty around future skills needs but also present opportunities for personalising education and improving institutional processes.

03

CALL FOR SUBMISSION

3.1 Current evidence gathering work

The Welsh Government is already in the process of undertaking a significant programme of evidence gathering and research into several of the challenges identified in this paper.

Over the past 18 months, research and analytical activity has prioritised developing understanding of trends in tertiary education participation. A diverse range of evidence is being brought together through a mixed methods approach, combining data linking, social research, and evidence synthesis and review, and consideration of specific learner groups.

A number of research and statistical reports have already been published:

- Diamond reforms student finance evaluation plan
- Progression from Year 11 to tertiary education, August 2017 to January 2025
- Young Person's Guarantee process evaluation
- Formative evaluation of Jobs Growth Wales+
- Learners' experiences in post-16 education (survey)
- Review of Education Maintenance Allowance

Further work undertaken or commissioned by The Welsh Government is expected to be published in early 2026:

- Evidence to support the evaluation of the Diamond reforms to student support.
- Review of the FE Welsh Government Learning Grant.
- Interim report from the Seren Programme evaluation.
- Analysis and evidence review of learner travel, distance required to nearest tertiary education institutions in Wales.
- Statistical report on predictors of post-16 participation.
- Statistical report on transitions from further education.
- Evidence review of effective interventions to raise participation.
- Evidence review on barriers to higher education.
- ADR Wales cohort analysis on progression and participation through education.

Medr's report 'Subjects of study - demand, provision and distribution of subject areas across higher education in Wales' will be published in February.

Existing and upcoming Medr publications related to participation and sustainability include:

- Consistent performance measures for post-16 learning (learner destinations): August 2021 to July 2023, published December 2025.
- Graduate outcomes, 2022/23, published July 2025.
- Consistent performance measures for post-16 learning: Achievement, August 2023 to July 2024, published May 2025.
- Students in higher education: August 2023 to July 2024 published April 2025. August 2024 to July 2025 data to be published on 29th January 2026.
- Apprenticeship learning programmes started: February to April 2025 (provisional) published August 2025. May to October 2025 provisional data to be published on 19 February 2026.

- Further education, work-based learning and community learning: August 2023 to July 2024, published March 2025. August 2024 to July 2025 data to be published on 26th February 2026.
- Learner outcome measures for apprenticeships and adult community learning: August 2023 to July 2024, published March 2025; August 2025 to July 2025 data to be published on 18th March 2026.
- Higher Education Initial Participation measure: up to the 2022/23 academic year, published February 2025.

Details on pre-announced and existing research and statistics from Welsh Government and Medr can be found here: Statistics and research | GOV.WALES