

Rt Hon Rachel Reeves MP
Chancellor of the Exchequer

Sent by email to: Action.Chancellors@hmtreasury.gov.uk

19 May 2025

Dear Chancellor,

Delivering greater economic growth is a shared ambition between the government and our universities. Our higher education sector supports over a quarter of a million jobs and contributes over £265 billion to the UK economy through its combined spending power and delivery of high-level skills, innovation and research, including across the eight growth-driving sectors.

We welcomed the Department for Science, Innovation and Technology's recent announcement that budget allocations for 2025-26 would see core research largely protected in cash terms. We recognise that it was not easy to secure this outcome, given the extraordinary pressures on public finances, and we want to thank you for your commitment to securing future prosperity by sowing seeds now in the UK's world-leading research system.

A good investment

We believe that this was a smart choice: University R&D activity drives £40 billion in the form of productivity gains for the private sector. Separate analysis shows that a 1% increase in investment in research leads to a 0.70% increase in economic growth.

A conspicuous strength of the UK

For the period 2008-2023, evidence shows that UK university research can be considered the strongest in the G7 across life sciences and medicine, business, management and accounting, economics, econometrics and finance and performing arts. In engineering and technology, we were second only to the US. The excellence of our universities in these areas is also reflected in the significant overseas investment they attract, which reached £0.74bn (from non-EU sources alone) in 2022-23.

The skills our economy needs

Chief Executive
Vivienne Stern MBE

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Graduates already comprise 52% of workers across all eight industrial strategy sectors combined. The life sciences, creative industries, and professional and business services are particularly reliant on graduates, where they already make up more than 70% of the workforce.

Sowing the seeds of future growth

In 2022-23, there were 2043 active university spinouts, employing over 54,000 staff (FTE), with a turnover of over £12.4 billion. Many of these companies operate within the industrial strategy growth-driving sectors. The top 5 sub-sectors for spinouts as of January 2025 were pharmaceuticals, data provision and analysis, electronic hardware, research tools and reagents, and clinical research, with the top emerging sector being Artificial Intelligence. There has also been a 70% increase in active student and staff start-ups from 2014–15 to 2022–23, with more than 64,000 people now employed by start-ups that emerged from universities.

The origins of today's spin outs and innovations are often found in research funded by universities themselves, supported by block grant (QR) investments and income earned from international student fees many years ago. This is also true in relation to key areas such as defence. For instance, the Laboratory for AI Security Research is drawing on fundamental research in mathematics, physics and computer science conducted over a thirty-year period by the University of Oxford and others. University of Exeter's Defence Data Research Centre (DDRC) grew out of QR-funded investment in staff and facilities, and pump priming of research before research contracts and research council funding was secured.

A firm foundation

You are well aware of the fragility of the university and research system. A UUK survey of university members in March 2025 showed that, in response to funding pressures, 20% have already cut back on academic R&D (up from 14% last year), while 79% said they would or may consider cutbacks to this area in the next three years. 50% had closed courses.

Universities UK is leading an Efficiency and Transformation taskforce, to help universities grip the financial challenge they face. But we need action from government too.

As you prepare to deliver your Comprehensive Spending Review, we ask you to:

- Set an ambitious R&D intensity target as a percentage of GDP to preserve the UK's leadership in science and technology.
- Ensure that there is a balance between fundamental research which sows the seeds of tomorrow's innovations, with applied research which supports today's priorities.
- Within this, we particularly ask you to ensure that Quality-Related research funding increases real terms – this vital resource has decreased in real terms by 15% since 2010.
- Ensure that the university sector is able to attract international students by delivering stable visa policy. We are concerned that the Immigration White Paper will result in a further hit to international student recruitment.

- Stabilise university income by delivering a real-terms increase in per student funding, through a combination of index-linking the tuition fee and increased public investment in high costs subjects.

We want to work with you to ensure that universities make the maximum possible contribution to growth. They provide essential economic infrastructure for the UK, and are a source of key advantage in global terms.

I would welcome an opportunity to discuss this with you.

Yours sincerely,

A handwritten signature in dark ink, appearing to read 'Vivienne Stern', on a light-colored background.

Vivienne Stern MBE
Chief Executive, Universities UK