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Estimating the dependency of UK universities on Non-EU tuition fee income

This note looks at a method to estimate the dependency of UK Universities on tuition fee income from non-EU students – overseas students, to use the sector parlance – and models the impact of a removal of overseas students, using 12-13 data. This is prompted by recent suspensions or limitations of universities' *Highly Trusted Sponsor* status in relation to overseas student visa applications.

Methodology

The HESA finance tables for 2012-13 give data for every UK university on overall income and surplus (HESA Table 1) and income from overseas tuition fees (HESA Table 4). This enables the calculation of the proportion of each institution's income which comes from overseas tuition fees.

HEFCE TRAC data for 2012-13 give an estimate of the contribution of overseas student fee income to the recovery of the full economic costs of their tuition across HEFCE funded institutions. This enables, for each institution, a rough estimate to be made of the contribution to the institution's surplus which comes from overseas students' tuition fees. The TRAC data enable the calculation of the average contribution to surplus (that is, the average extent to which fee income exceeds costs). This proportion can be multiplied by the actual level of overseas tuition fee income to give a net contribution to surplus. This net contribution can then be subtracted from the actual surplus for each institution to give an estimate of their surplus should there have been no overseas students to teach, and therefore no income and no associated costs.

The use of TRAC data has two specific problems which need to be borne in mind when interpreting the findings in this note. Firstly, the total income recorded against the relevant TRAC heading (£3.281 billion) is less than the total overseas tuition fee income recorded in HESA data (£3.532 billion). This may be because the HESA data includes overseas income for pre-entry language qualifications. Secondly, published TRAC data relates only to HEFCE funded institutions (ie not those in Scotland, Wales and Northern Ireland) and give only a total figure for the sector. This means that the multiplier used will not be correct for any individual institution; the model also assumes that Scottish, Welsh and Northern Irish universities have similar patterns of cost to English institutions.

These methodological constraints means that the specific numbers output from the model will include a degree of error; but the broad overall conclusions are unlikely to be wrong. Underpinning the sue of HEFCE TRAC data is an assumption that universities in the four UK nations have similar practices and cost bases, and as they compete in the same student recruitment market and (overwhelmingly) use the same pay spine, this seems likely to be a good assumption.

Findings

Of the 161 institutions which return to HESA, only four derived no income from overseas tuition fees. Ten derived over 25% of their total income. Overall, the pattern

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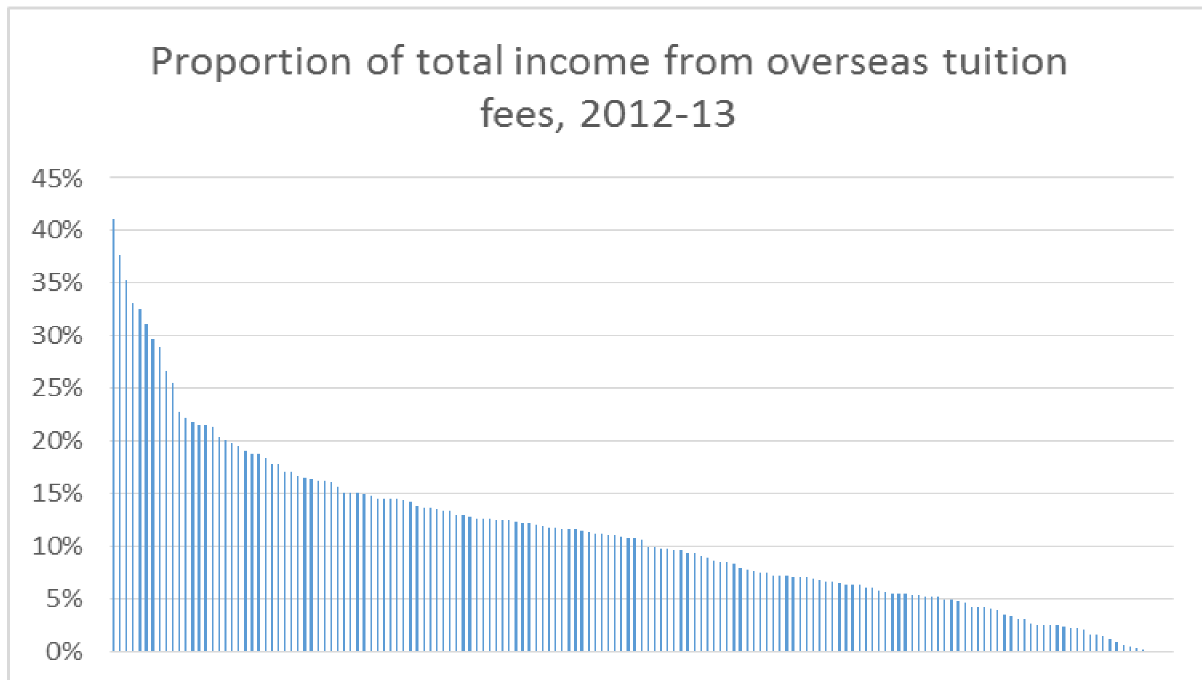
distribution is shown in the following chart (in which each bar represents a UK university, ordered from highest to lowest):



Overseas tuition fees comprise more than 10% of total income for about half of UK universities; and over 5% for the large majority. Clearly the degree of dependency varies: for a small number of institutions it comprises a dominant funding source; for a few it is trivial; for most it appears to be significant.

But the proportion of income is not the only measure of dependency. UK universities operate in a mixed public-private market, where there is direct state funding for some activities (eg research); regulated state supported funding for some activities (eg capped fees for home students); and unregulated funding for other activities (overseas student tuition fees; some taught postgraduate programmes). In times of restraint on the public purse it should not surprise that public funding – direct or indirect – is not often set at a level which enables the generation of surpluses.

UK universities are expected to operate sustainable finances, meaning, in practice, that they make a surplus to enable investment in infrastructure. Guidance on the level of surplus has become generally less specific over time. HEFCE previously suggested 3% as a guide; the current expectation is around 5%, although this is not explicitly said. University governing bodies must use their own judgment.

The levels of surplus in 2012-13 can be seen in the chart below. The pattern is of most institutions generating surpluses of between 0 and 10%; a few making much larger surpluses; and about same small number reporting deficits. In actual numbers, 19 of 161 reported a deficit; 68 of 161 reported a surplus of below 3% (this includes those reporting a deficit); and 107 reported making a surplus of below 5% (again including those reporting a deficit.) In a transitional year (2012-13 was the first year of the higher fees regime for English universities, with concomitant market uncertainties in the other three nations) these numbers should not be taken to indicate fundamental unsustainability of institutions, but they arguably do indicate

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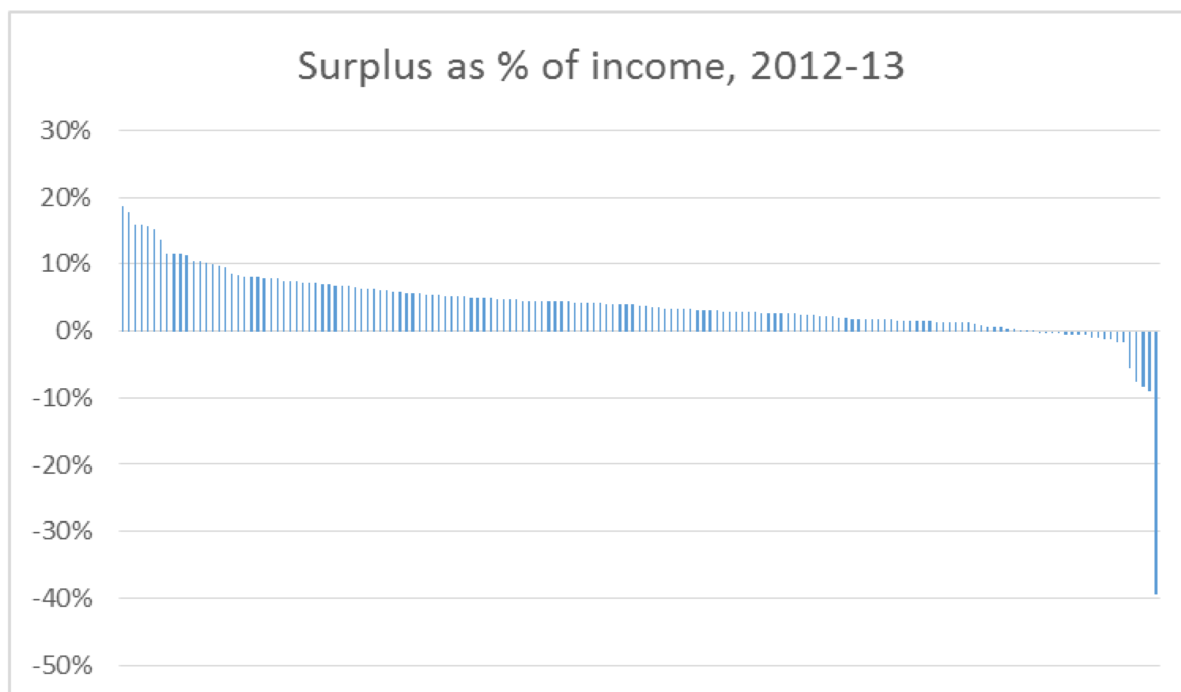
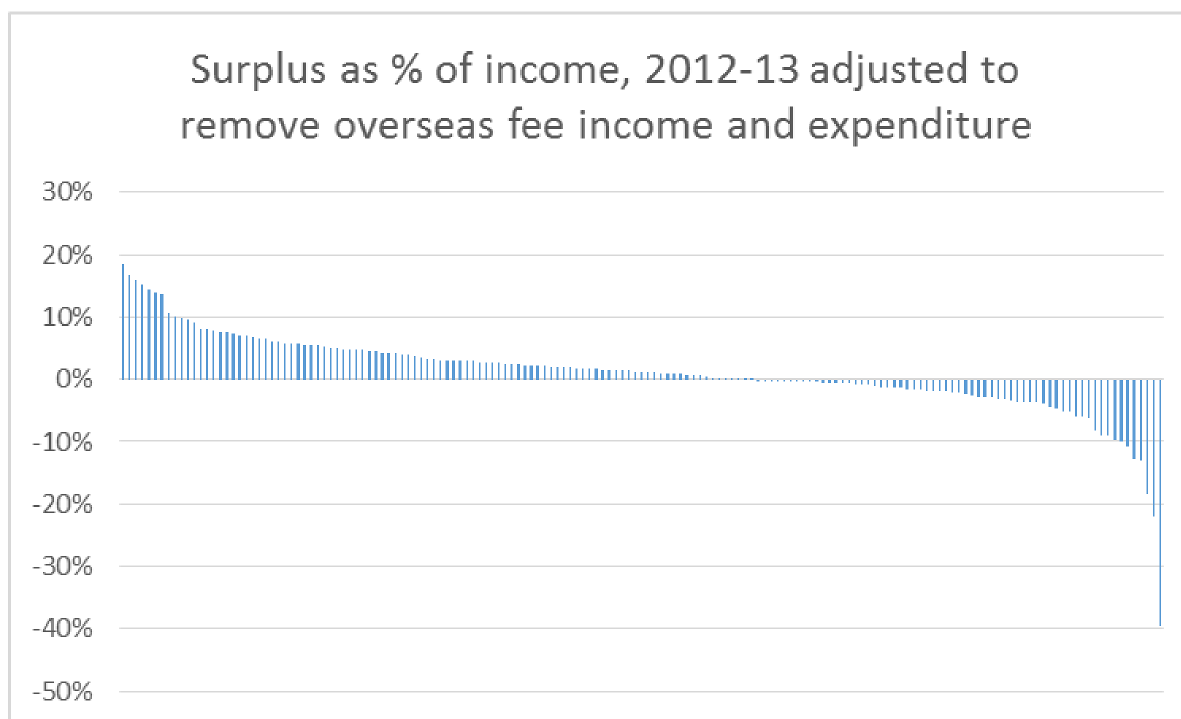
that the transition has been difficult for the sector, with institutions having to work hard to respond.



Using the methodology described above, surpluses for 2012-13 can be modelled excluding the income and expenditure effects of overseas students. The chart below shows this:



Fewer institutions would report surpluses in this model; the level of surplus, where reported, would generally be lower; and more institutions would report a deficit. Using the deficit, 3% and 5% thresholds noted above, in this scenario 63 of 161

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institutions would have reported a deficit; 110 of 161 would have reported a surplus below 3%; and 128 of 161 would have reported a surplus below 5%.

Comparison of these two positions does reveal a significant dependency upon overseas fee income.

	2012-13 actual data	2012-13 model excluding the effect of overseas students (income and expenditure)
Total net sector surplus	£1,083 m	£206 m
Mean surplus (£)	£6,729 k	£1,279 k
Mean surplus (%)	3.89%	1.04%
Number reporting deficit	19	63
Number reporting surplus <3%	68	110
Number reporting surplus <5%	107	128

The model shows that over 80% of UK universities' reported surpluses in 2012-13 derived from overseas student fee income.

Discussion

This note seeks to estimate the dependency of UK universities on overseas student fee income. This is useful in considering financial strategy (on an institutional basis but also, for governments and funding councils, on a sector wide basis) and also in identifying strategic risks which should be considered within institutional risk management frameworks.

The disappearance of overseas students from the UK university sector is obviously hypothetical. Scenarios in which all overseas students in UK universities suddenly and *en masse* lost their right to remain in the UK are obviously fantasy. Individual institutional problems within the current UKVI sponsorship framework cannot simply be scaled up to a sector-wide problem in any sensible scenario. Much more likely is a reduction, over time, in the number of overseas students who come to study in the UK. There would be two main reasons for this.

The first is the effect, on the views of potential students, of the UK's current immigration rules and policies. The UK risks being seen as a less welcoming country for international students. The pause in growth of overseas student numbers which the UK has recently seen may be an indication of this; the considerable decline in new overseas student numbers from India is likely to be explained, in part at least, by this. The higher education sector has strongly made the case for loosening the regulatory restrictions on the recruitment of overseas students, but the

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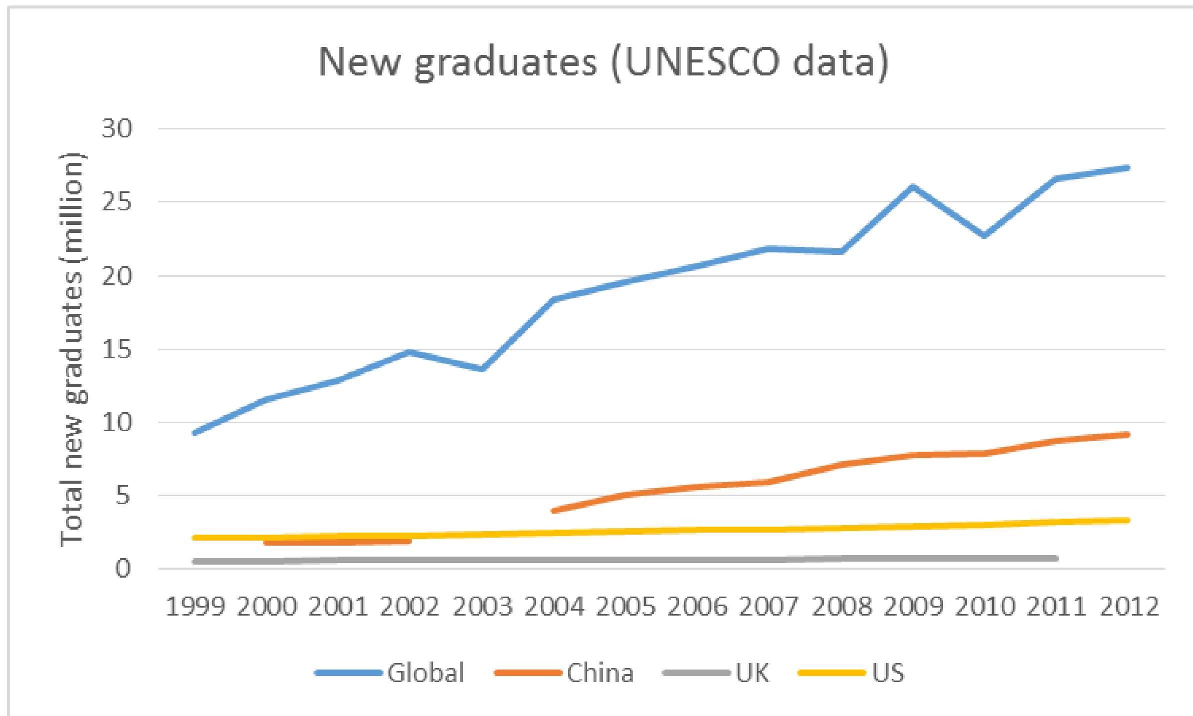
politics here have nothing to do with higher education: any impact on the sector appears to be a secondary consideration for government.

The second factor is a longer-term change. UNESCO data on graduates from tertiary level education across the world show that national systems of higher education are growing in capacity.



In 2000 Chinese universities produced 1.78 million graduates. In 2012 Chinese universities produced 9.14 million graduates. Globally, the number of new graduates grew from 9.29 million in 1999 to 27.38 million in 2012.

There is also a broadening of the quality base in higher education. Global university league tables show that the dominance of Western universities (and particularly US and UK universities) is being challenged. And with increasing capacity and quality in HE systems across the world, the need to travel to the UK (or the US or Australia) for a good higher education diminishes. Consideration of affordability for individuals alone would suggest that over the coming years more young people will choose to go to university in their own country rather than travel abroad. The market for overseas education is unlikely to be eliminated entirely but it would be a brave assumption that the number of overseas students coming to the UK will persist at current or higher levels for the foreseeable future.

Conclusions

For institutions, a number of conclusions can be drawn. First is the need, in the short term, to mitigate the risk of losing overseas student numbers: focusing on compliance with UKVI procedures; ensuring the quality and robustness of collaborative provision, especially in relation to validation and franchise arrangements; and investing in overseas recruitment capacity should all be considered. In the medium to longer terms, the focus should change: planning to

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decrease reliance on overseas students coming to the UK will be prudent, and addressing the cost base of the institution and growing other markets are two sensible steps.

At a policy level, there is a challenge for governments and funding councils. To deliver financial sustainability without the current scale of overseas student fee income means that other components of university income need to deliver more by way of surplus. This gives a choice: either the state has to accept that publicly funding must not be so mean as to prevent longer term investment, or the state must accept continued responsibility for capital funding of buildings and infrastructure. Neither will be an appealing choice, and both prompt difficult questions about the balance of institutional autonomy versus the obligations that come from public funding.

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