

Executive Summary

**Projecting demand for UK Higher Education from
the Accession Countries**

Libby Aston

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Higher Education Policy Institute

Introduction and background

1. The Accession Countries¹ (ACs) join the EU from May 2004 and from September 2004 students from the ACs will be treated as all other EU and home students in the UK. EU students have equal access to UK HE places on a like for like basis with UK home applicants, pay the same up-front fees as home students, and are means-tested for payment of undergraduate fees against the same criteria as UK home students. Under Government proposals, from 2006, they would be eligible for the same variable undergraduate fees, and the same repayment conditions as UK students. The one difference is that EU students do not, at present, have access to student financial support that is available to home students (currently student loans and hardship / access bursaries).

2. The UK is by far the most popular country of study amongst EU students², making it the largest net importer of students within the EU. The pattern of demand demonstrated by mobile students from the ACs is, however, quite different: in those countries participation in higher education (HE) is lower than in the rest of the EU, and amongst the students that study abroad from the ACs, the US and Germany are the most popular destinations. With the ACs joining the EU, a number of conditions will change that affect demand for higher education in general and for overseas higher education in particular, together with the choice of country when studying abroad. This paper examines these changes and the likely implications for this country.

3. Students coming in from other EU countries make up approximately 5 per cent of students in UK HEIs. In 2001-02 there were approximately 80,000 students from other EU countries studying in the UK (excluding EU students on exchange programmes), nearly 50,000 of whom were undergraduates. In addition, there were approximately 17,600 incoming exchange students from other EU countries studying in the UK on Erasmus programmes, nearly all of whom were undergraduates.

¹ Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovak Republic and Slovenia.

² In this case, and for the rest of the report, EU students or EU countries refers to all EU students or countries other than the UK. The current EU countries are Austria, Belgium, Denmark, Finland, France, Germany, Gibraltar, Greece, Irish Republic, Italy, Luxembourg, Netherlands, Portugal, Spain, and Sweden.

4. There has been a slight decline in the overall number of non-exchange students coming in to the UK from the EU since 1999-2000. This decline is largely a result of a reduction in demand from Greece and the Republic of Ireland (the countries with the largest number of students coming in to the UK). This demonstrates the extent to which demand for UK HE from EU students is influenced by circumstances within member states.

5. In 2001-02 there were just under 6,000 students from the ACs studying in the UK as international students. The number of students coming into the UK from the Accession Countries has been significantly increasing since 1998-99 – by over 20 per cent in just 3 years to 2001-02 (although from a relatively small base). Just over half of the students are undergraduates. However, this increase disguises a broad range of increases from 12 per cent (Cyprus) to 115 per cent (Slovenia – although from a very small base). Students from Cyprus made up 63 per cent of students coming into the UK from the ACs in 2001-02, but this high proportion has slightly reduced from 1998-99 when the same figure was 68 per cent.

Summary of factors affecting demand for UK HE from the ACs

6. The two factors affecting demand for UK HE from the ACs are the size of the HE student population within the ACs and, more importantly, the proportion of these students that decide to study in the UK.

Growth of student numbers within the ACs

7. If the proportion of students studying abroad, and the proportion choosing to study in the UK, do no more than remain constant, then any growth of the total number of HE students within the ACs will result in an increase in demand for UK HE. Demand for HE within a country depends largely on two factors – the size of the population (especially the young population) and the participation rate in HE.

8. There is a projected decline in the young population, averaging around 11 per cent across the ACs to 2010. However, this does not imply a decline in the HE student population, if participation rates were to increase. The rapid growth in HE student numbers that has occurred across all the ACs recently has taken place despite declining young populations in five of them.

9. There has been considerable growth in higher education participation in the ACs recently. Nevertheless, using a proxy for participation rate (the percentage of 18-23 year-olds in HE), it appears that many ACs still have relatively low participation rates. Even those ACs with the highest participation rates are still below the levels of some EU member states. The low proportion of the young population with tertiary qualifications also shows there is capacity for further growth of participation rates within the ACs.

10. The factors that could drive an increase in demand for HE are:

- School staying on rates and levels of attainment

The staying-on rates in education to age 18, and attainment of upper secondary qualifications (level 3), are both extremely high in the ACs – higher than EU levels. If the propensity of level 3 qualifiers to enter HE converges towards EU levels, this will create a strong driver for increased demand for HE.

- Strong economic drivers of demand

Continuing growth of demand for high level skills from the labour market will continue to drive demand for HE – especially if the projected economic growth takes place as a result of the ACs joining the EU. Furthermore, the greatly reduced chance of unemployment amongst graduates, in countries where levels of unemployment remain high, will continue to drive demand for HE.

- Student finance arrangements

This paper assumes a steady state in terms of the impact of student finance arrangements on demand for HE. Nearly all the Central European ACs charge fees for full-time undergraduate places above a set quota of government-subsidised places, and financial support for students is limited. Recent growth has taken place with these systems in place, and there is little change anticipated in student finance arrangements in the near future.

11. These are strong drivers which will lead to increased demand for HE but growth in HE numbers will not take place unless the supply of places increases as well. The number of Government-subsidised places available is restricted and this is unlikely to change in the future. The fee-based growth of the system, including private sector HE in some ACs, has allowed the very rapid growth experienced in recent years. There is no reason to think this cannot continue into the future if demand is sufficient – and the main drivers of participation increases suggest it will. As a result, it is likely that the number of HE students within the ACs will continue to increase.

Growth in demand to study abroad

12. The proportion of students studying abroad is already similar to EU levels, with approximately 2 per cent of students from the ACs studying abroad, with two major outliers (Cyprus and Malta). Factors that might increase demand to study abroad even further in the future are an increase in the wealth of the highest earners, and any restriction in the supply of places within the ACs.

13. In most countries, only a very small proportion of students study abroad, and research shows that they come from the highest income backgrounds. If the current distribution of wealth in the ACs continues, then the wealth of the highest earners is likely to increase significantly if the projected increase in GDP takes place after joining the EU. This could increase demand to study abroad in the future.

14. We know that the restriction of supply of places within a country can greatly affect demand for HE abroad (Greece is a good example of this). Whilst state-subsidised places are restricted in all of the ACs, capacity for growth has been demonstrated within the fee-paying sector including private sector HE. If future unmet demand is largely met by private systems however, this might affect the relative affordability of studying abroad for an increasing number of students.

Growth in the proportion of students choosing to study in the UK

15. Whilst the proportion of HE students that study abroad from the ACs is similar to EU levels (around 2 per cent of HE students), the proportion that choose the UK from the ACs is much lower than average

EU levels at present. However, joining the EU will change some of the major factors affecting the decision of which country to study in.

16. The UK was the most popular destination for study chosen by people within the ACs surveyed by MORI for the British Council – if their choice were unconstrained. This is largely a result of the perceived high quality of UK HE, and the perceived credibility of UK qualifications with employers. The major changes that will take place as a result of the ACs joining the EU will be in terms of affordability of HE and accessibility – two important factors in choosing which country to study in. Charging home and EU level fees will make the UK much more affordable than the US (in terms of international level fees charged to students from the ACs at present, this is not the case). It will also put the UK on a more level playing field with the rest of Europe (with Germany, for example, that charges no fees), and even some of the ACs in terms of fees. These changes are likely to make studying in the UK a possible option for many more individuals from the ACs.

17. Demand to study in the English language (although not to study the language itself) is still a major factor in demand for UK HE, and English is now the second language taught in schools across all of the ACs without exception. For these reasons demand for UK HE is likely to increase significantly once the ACs join the EU – at least to converge with EU average levels, and possibly higher in the long term future.

Projections of demand for UK HE from the ACs

18. For the reasons set out above, there are good reasons for thinking that demand for higher education will continue to increase in ACs, despite a declining population, and that demand for UK higher education will grow substantially. Three projections have been made, all of which assume that the rate of increase in participation in the ACs reduces to about half the very rapid recent rate, and that the proportion of total AC students that study abroad remains the same. In each of the projections the propensity of AC students to study in the UK is varied.

19. The resulting projections of increased numbers of students from the ACs in the UK range from 20,000 by 2010 in the low projection (where the propensity of AC students to study in the UK is assumed to rise to half that of the EU average) to 30,000 by 2010 in the high projection (where the propensity of AC students to study in the UK is assumed to rise to the EU average). Even these figures may be an underestimate. If, as a result of joining the EU, the proportion of students studying abroad increases greatly above current levels, or more of the ACs become outliers, as Cyprus and Malta already are, these total numbers could increase significantly. It is likely that a considerable part of the increase in numbers will take place immediately in September 2004 as a result of the conditions that will change when the ACs join the EU.

20. The biggest cost to EU students in the UK are living / maintenance costs, and EU students do not –as yet – have access to financial support arrangements available to home students. With England proposing to re-introduce grants of up to £3,000 a year for undergraduates, this could have a dramatic effect on demand for HE – if, and only if, EU students are given equal access to financial support. At present they do not, but if EU law changes on this matter, the demand for UK HE could increase further.

Impact on UK HE supply and demand³

21. Adding demand from 20,000 to 30,000 additional EU students to the 180,000-250,000 additional undergraduates projected in England alone to 2010 will put great pressure on the HE system in the UK.

³ The analysis regarding impact on supply and demand has been written in reference to the circumstances in England particularly but has implications for other countries in the UK.

22. Assuming projected demand is met through sufficient supply of places, any increase in EU students from the ACs will add to the projected increase in the pool of qualified entrants from which recruiting institutions⁴ can recruit. Regardless of which HEI EU students attend, knock-on effects will mean that an increase in the total student population will increase the opportunity for recruiting HEIs to meet their student number targets – especially in shortage areas such as maths, science and engineering related subjects because of the disproportionately high number of applicants from the ACs for these subjects with strong qualifications. Taken alongside the projected increase of home students to 2010, the UK HE system is likely to see far fewer unfilled places to 2010.

23. Selecting HEIs – those that select their students based on strict academic criteria - take a higher number of postgraduate EU students, but still a significant number of EU undergraduates. Any increase in EU students from the ACs is likely to increase competition for places at selecting HEIs. It is inevitable that selecting HEIs will take the most academically able students regardless of their background – including country of origin – and this is very important to ensure a system of fair access. UK students compete with EU students on a like for like basis for limited places at selecting HEIs. Any increase in the number of students from the ACs is likely to further increase the level of competition for these places.

24. Under current funding arrangements, whether we will see a shortage of HE places in the UK for the first time in decades will depend on the availability of Government funding for additional places. If supply does not increase sufficiently to meet demand, it is not just EU students that will lose out: the number of HE places available will not be sufficient to meet demand from home applicants either – this could actually reduce UK participation rates in HE.

⁴ Recruiting institutions are those that actively recruit students onto courses, and often have an excess of supply over demand. Selecting institutions are those that are able to select, and generally have an excess of demand. This typology while crude is nevertheless helpful in general.

Costs and benefits to the UK⁵

25. These calculations assume that the Government will be willing to meet the cost of the increased demand arising from AC students, and consider the costs and the benefits that will follow from this increased demand. If the increased demand is not met, of course, then the costs will be lower, but so will be the benefits.

26. Since students from Accession Countries will in future be equivalent in all respects to students from other EU countries, it is convenient to consider costs and benefits of EU students at present, and then to extrapolate these to draw conclusions for Accession Country students.

Costs

27. Based on current Government proposals, and the assumption that average institutional grant will not change after 2006, the total cost to the UK taxpayer will be about £4,800 for each undergraduate EU student (£3,750 institutional grant plus £1,070 in respect of the cost to the Government of the deferred fee). The full paper sets out the details of these calculations.

28. Similar calculations can be done for postgraduates students, though in the case of these there is not the complication of the cost to the Government of deferred fees. The value of the Government grant varies according to subject, but for EU postgraduate students, the total cost to the UK taxpayer is approximately £2,000 per student per year on average.

⁵ Costs have been calculated based on fee levels in England. However, the method of calculating the costs and benefits of EU students could be applied to other UK systems

Benefits

29. The most obvious benefits⁶ arise from the expenses that EU students incur in order to live while studying. From their living expenditure alone, each EU student will make a net transfer to the UK economy of something over £6,000 per year – exceeding the cost to the Government by 25 per cent for undergraduates and by 300 per cent for postgraduates.

30. We know from the First Destination Survey that approximately 25 per cent of EU undergraduates remain in the UK to work after graduation⁷. Based on a conservative estimate of EU students that work in the UK doing so for just 1.5 years on average, they will pay around £5,000 in income tax. Bearing in mind that one in four students pay this tax, and that the average length of undergraduate course is about 3.3 years, each EU student will therefore contribute an average of £400 income tax for every year for which they study. Because of their age, almost all of the tax paid by these graduates will represent net income to the Government, with very little offsetting expenditure.

31. In total, therefore, it is estimated that on average EU students will provide at least £6,400 (£6,000 plus £400) of direct financial benefit to the UK, compared to the cost of £4,800 for undergraduates and £2,000 for postgraduates. Effectively, in financial terms alone the UK benefits to the tune of £210 million per year from the presence of existing EU students⁸. In terms of their contribution to GDP, the benefit the UK receives from EU students is very much greater than that, since the average £21,000 annual income of graduates who work implies a net addition to UK GDP of around £0.5 billion per year.

32. In addition, there are substantial other benefits which have not been quantified here, some of which are unquantifiable. In particular, the UK benefits from an addition to its stock of employed manpower of a significant number of highly skilled young people. Other benefits arise from the contribution of these EU students and researchers within UK HEIs, and from having a significant proportion of the young future elite

6 No account is taken here of the fees paid by EU students, as only the net cost to the Government of the fee regime has been shown.

7 of those EU students whose destination is known.

8 Based on EU students currently studying in UK, excluding incoming exchange students. Undergraduate costs based on Government proposals for post 2006.

of Europe living, studying and working in this country for an important and formative period in their lives.

33. This analysis has been carried out in terms of the costs and the benefits to the UK as a whole. It should be noted, however, that the costs arise wholly to the Government, but the benefits are in part private and in part common (via taxation). This may complicate investment decisions by the Treasury, but viewed as a nation they do not invalidate the conclusion.

Costs and benefits of Accession Country students

34. Exactly the same costs and benefits that have been shown above for EU students should apply to Accession Country students. It has been assumed throughout this report that Accession Country students will, perhaps after a period of adjustment, behave in all relevant respects like other EU students. On the basis of the projections described above, the net benefit likely to arise to the UK as a result of opening our higher education system to Accession Countries is likely to be between £55 million and £80 million per year, with a much higher contribution to GDP from those who stay here subsequently to work - leaving further unquantified, intangible and non-economic benefits to be reaped at no effective cost.

35. There is, though, one unavoidable, one off, cost that will arise: there are about 6,000 accession country students in the UK at present, who pay overseas student fees. From next September their liability will reduce substantially, when they become eligible to pay the home fee only. This will result in lower fee income totalling something like £50 million, and this will be borne by the HEIs currently hosting the students. This will be felt disproportionately at some HEIs but should come as no surprise. This change will have been anticipated for some time and this will have allowed these HEIs to adjust for these losses – for example by increasing their share of students from other international markets.

36. Finally, if in the future EU students are given the same access to student support facilities as home students then not only would this have a dramatic effect on demand for UK HE, but the cost of EU students to the UK taxpayer would rise significantly. As a result of the EU's commitment to progress student mobility across Europe, it is possible

that this substantial additional cost will have to be considered at some point in the future.

Deferred Fees

37. The Government's ability to recover money owed from EU students is essential to the calculation in this paper. The Government's regime for the payment and collection of undergraduate fees will need to be the same in respect of home and EU students; including 100 per cent deferred payment of fees and a proposed earnings threshold for repayments of £15,000. In the medium term, it is likely that average earnings within the ACs will converge with average EU earnings, but at present average earnings in the Central European ACs are well below this figure. Regardless of average earnings within the ACs, setting up a system for collection of fees across Europe as a whole will be extremely challenging and will require a high level of co-operation with other EU Governments. It is essential that a robust system is in place by the time it is needed.