How exposed are English universities to reductions in demand from international[1] students?

1. In 2003-04, fees from non-EU students accounted for 8.1 per cent of the income of English HEIs[2]. This is a slightly higher proportion of the sector's income than HEFCE research income (7.5 per cent) and reflects a very rapid increase in fee income. By 2003-04 English universities received £1.12bn in fees from non-EU students; as recently as 1999-00 income from non-EU student fees was as little as £644m *at 2003-04 prices*[3]

2. The dramatic increase in international student fees prompted some very ambitious expectations of continued growth. For example, in financial forecasts presented to HEFCE, English HEIs collectively estimated growth of 7.7 per cent in student headcount between 2004-05 and 2005-06[4]. For this to be achieved, new entrants would have to exceed departing students by more than 7.7 per cent of total student numbers.

3. As table 1 shows, more recent data has not borne these estimates out , suggesting instead that growth may not continue at anything like the rates seen in the years up to 2003-04. Applications from outside the EU to the University and Colleges Admissions Service for 2005-06 were up by 3.7 per cent on the previous year – less than half the sector estimates. HESES (which provides provisional figures on student numbers to enable HEFCE to finalise its funding allocations) shows that there was a small fall (-0.5 per cent) in first year non-EU student numbers between 2004-05 and 2005-06. This imples a rather more substantial fall in first year numbers.

Table 1: Growth in non-EU student numbers 2004-05 to 2005-06: three indicators

	Type of indicator	Growth rate
HEI estimates	Estimate of total headcount	7.7%
UCAS applications	Leading indicator of numbers of entrants	3.7%
HESES first year students	Actual numbers of entrants	-0.5%

4. The Times Higher Education Supplement[5] recently reported a slowdown in demand from overseas students to study in Australia suggesting that the global market in Anglophone Higher Education may be depressed.

[1] The term 'international' is used in this paper to refer to students and associated fee revenue from outside the European Union
[2] Only a very small proportion of this figure is related to students from the ten EU accession countries. Of the 131 037 students from outside the EU in 2003-04, 3 583 or 2.7 per cent came from the ten countries subsequently admitted into the EU. Students from these countries can no longer be charged full fees. If we assume that the proportion of international fee income related to the these students is the same as their representation in the student body (ie. 2.7 per cent of the total) in 2003-04, 7.9 per cent of the income of English HEIs came from fees for students from countries which remain outside the EU in 2006.
[3] Assumes inflation at 2.5 per cent per annum throughout the period
[4] Aggregate of estimates provided by individual institutions to HEFCE. Institution-level data is confidential.
[5] Tighter visa rules threat (THES 17 February 2006)

5. The market for international higher education must at present be considered immature because the explosion in numbers is so recent. It is not known which countries and which institutions within each country will establish a lasting reputation in which markets; nor is it known which source countries will continue to supply large numbers of students in five, ten or twenty years time. Very little is known about the returns on a degree from an English university to a student from major source countries such as China, India or Malaysia although it is probable that the strength of demand from those countries will ultimately depend upon this.

6. A few predictions can be made - although it must be frankly admitted that these owe more to common sense reasoning than to statistical analysis[6]. It is reasonable to suppose that in-country provision in major source countries will become more competitive with overseas provision and that prospective students' ability to distinguish between different universities in foreign countries will improve. This suggests that higher education exports from rapidly developing countries (which constitute most existing demand) will peak at some stage before falling off quite rapidly and that some time before numbers begin to fall a 'flight to quality' is likely to take place. It is as yet unclear whether these processes are already underway. It is also possible to predict that political and economic shocks as yet unforeseen will impact upon student numbers – an important point to bear in mind given the benign conditions which have accompanied the recent expansion.

7. This paper is not an attempt to predict whether or not there will be a prolonged slowdown; it is sufficient to observe that of all the major income streams of English HEIs, international student fees are surrounded by the greatest uncertainty. Given that universities and colleges continue to run very close to break-even levels, a heavy dependence upon international student fees is potentially a risk factor. What follows is an analysis of the extent of to which English institutions have such a dependence.

The importance of revenue from non EU students to English HEIs

8. With the exception of three somewhat atypical London institutions (the London School of Economics, the School of Oriental and African Studies and London Business School) no institution received more than 18 per cent of its revenue from international student fees. The group immediately below these three is perhaps of the greatest interest containing as it does institutions which might be thought more vulnerable to the impact of a downturn in the market.

[6] The recent attempt to project demand from international student demand by the British Council assumed high levels of growth in the aggregate demand for study in English speaking countries and offered variant projections reflecting different assumptions concerning the UK share of that growth. Its baseline projection was for 6 per cent year on year growth in numbers of international students in UK universities until 2020. Since it was published growth appears to have stalled (possibly temporarily). The problem is that any assumptions in this field are highly speculative. The recent slowdown (caused mainly by a drop in applications from China) shows how unpredictable – and therefore risky – the market is.

Table 2: 20 English institutions for whom fees from non-EU students represent the highest proportion of total income (£000)

	Income from non EU fees	Total income	Percent from non-EU fees
LSE	43259	129124	33.5
SOAS	12779	40047	31.9
London Business School	15045	78086	19.3
Essex	14783	82867	17.8
Luton	9082	51246	17.7
City	20477	118340	17.3
Royal Ac of Music	2130	12498	17.0
Westminster	20589	124505	16.5
University of the Arts	19318	118402	16.3
Middlesex	20486	128263	16.0
Hertfordshire	20739	131769	15.7
Bradford	12763	84533	15.1
Goldsmiths	7516	50614	14.9
Oxford Brookes	15739	111072	14.2
Royal Northern Coll Music	1431	10396	13.8
Royal Holloway NBC	10007	74723	13.4
Kent at Canterbury	12397	93174	13.3
Royal College of Music	1582	11923	13.3
Greenwich[7]	14870	117102	12.7
Portsmouth	14412	113520	12.7

[7] The University of Manchester Institute of Science and Technology (UMIST) would occupy the 19th position in this table ahead of the University of Greenwich were its details shown separately. This has not been done because of its subsequent merger with the Victoria University of Manchester. If results for the two predecessor institutions of the new University of Manchester are combined, their dependence upon non-EU fees is lower than for any of the institutions shown.

Impact of a hypothetical 25 per cent drop in international fee income

9. These figures do not suggest that the risks taken by institutions which have become heavily involved in the international student market are unreasonable – so long as they have not made themselves dependent upon the attainment of unrealistic future recruitment and revenue targets. An institution which depended upon international fees for 18 per cent of its revenue would suffer a 4.5 per cent drop in total revenues were its international fee income to fall by a quarter. Such a drop would, doubtless, be very serious for the institution concerned but should not, on the face of it imperil its existence.

10. However, universities and colleges tend to run very modest surpluses. Table 2 shows the impact upon those surpluses of a notional 25 per cent drop in revenue from non-EU students (assuming zero impact upon costs) for each of the twenty institutions most dependent upon revenue from non-EU students. It is immediately apparent that, whilst most of these institutions ran modest surpluses in 2003-04, these would, in most cases, be wiped out by a 25 per cent fall in international fee revenue. It is clear that a sharp reversal in international student numbers would, in most heavily exposed institutions, necessitate immediate action to offset the loss of revenue.

Table 3: Impact of hypothetical 25 per cent drop in non-EU fees on university surpluses

	2003-04 position		2003-04 position if non-EU revenue 25% lower (assumes costs unchanged)	
	Surplus/Deficit	Surplus/deficit as percentage of total income	Surplus/Deficit	Surplus/deficit as percentage of total income
LSE	8,773	7	-2042	-1.58
SOAS	-306	-1	-3501	-8.74
LBS	3,007	4	-754	-0.97
Essex	1,857	2	-1839	-2.22
Luton	508	1	-1763	-3.44
City	2,277	2	-2842	-2.40
Royal Ac of Music	788	6	256	2.04
Westminster	3,497	3	-1650	-1.33
University of the Arts	7,220	6	2391	2.02
Middlesex	-5,419	-4	-10541	-8.22
Hertfordshire	21,066	16	15881	12.05
Bradford	2,518	3	-673	-0.80
Goldsmiths	618	1	-1261	-2.49
Oxford Brookes	2,375	2	-1560	-1.40
Royal Northern Coll Music	-120	-1	-478	-4.60
Royal Holloway	1,678	2	-824	-1.10
Kent	4,703	5	1604	1.72
Royal College of Music	-434	-4	-830	-6.96
Greenwich[8]	3,334	3	-384	-0.33
Portsmouth	3,356	3	-247	-0.22

[8] The University of Manchester Institute of Science and Technology (UMIST) had would occupy the 19th position in this table ahead of the University of Greenwich were its details shown separately. This has not been done because of its subsequent merger with the Victoria University of Manchester. If results for the two predecessor institutions of the new University of Manchester are combined, their dependence upon non-EU fees is lower than for any of the institutions shown.

Variations in revenue per student

11. There are wide variations in revenue per student. In 2003-04

Table 4: Variations in revenue per student

	Fee income per non-EU student (£)	Percent from non-EU fees (£000)	Number of non-EU students[9]	Number of Chinese students	Number of students from accession countries
Luton	5352	17.7	1697	771	48
Middlesex	6350	16	3226	542	154
Hertfordshire	7206	15.7	2878	1282	43
Essex	7417	17.8	1993	678	111
University of the Arts	7456	16.3	2591	139	64
Portsmouth	7610	12.7	2171	984	37
Bradford	7749	15.1	1647	700	10
Oxford Brookes	8549	14.2	1841	423	63
Kent at Canterbury	8925	13.3	1389	210	80
Royal Holloway NBC	9007	13.4	1111	291	27
City	9591	17.3	2135	374	96
Greenwich	9622	12.7	1954	438	39
Westminster	10029	16.5	2053	274	94
Goldsmiths	10296	14.9	730	72	14
Royal Ac of Music	11211	17	190	7	6
SOAS	11575	31.9	1104	150	11
LSE	12335	33.5	3507	395	140
Royal College of Music	13294	13.3	119	6	6
Royal Northern Coll Music	17241	13.8	83	12	3
London Business School	26441	19.3	569	40	14

NB. The last three columns of this table were reproduced incorrectly in an earlier version of this report and have been corrected. All other figures are unchanged.

[9] Includes students from the ten accession countries which have sinced joined the EU

12. The figures above need to be approached with caution as they do not reflect the subjects and modes of study of non-EU students in the different institutions. However, it is worth noting that, unless their numbers of part-time students are unusually high[10], some institutions are probably earning little more from non-EU students than they will be from home students after 2006-07.

13. The table also shows that, whilst numbers of international students (and aggregate revenues) were in 2003-04 still growing very strongly, by 2003-04 the market was already highly price sensitive with some institutions being forced to charge much lower rates than others. This casts serious doubt on the ability of the sector as a whole to achieve sharp increases in revenue per student: if some institutions are already being forced to accept fees which are little better than they will shortly be able to get for home and EU students, this suggests that their price-setting power is quite limited.

14. For some institutions, it may be that non-EU students become a means of supplementing demand from home and EU students rather than a cash cow. Such institutions will struggle to justify expensive investments in facilities targeted at non-EU students such as targeted support services, special training for lecturers, help in integrating with the host community off-campus and marketing campaigns because the returns on these investments will be limited.

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[10] In 2002-03 78 per cent of non-EU student were full-time