Institute for Fiscal Studies

Drop in international students would imperil university finances

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The international response to halt the spread of COVID-19 has already had a significant impact on the higher education sector in the UK with campuses shut, classes shifted online and many students returning home. Whilst these closures will, no doubt, remain in place for the remainder of this academic year, universities and policymakers are nervously looking ahead to the autumn to try to understand how the current pandemic will continue to shape the higher education landscape.

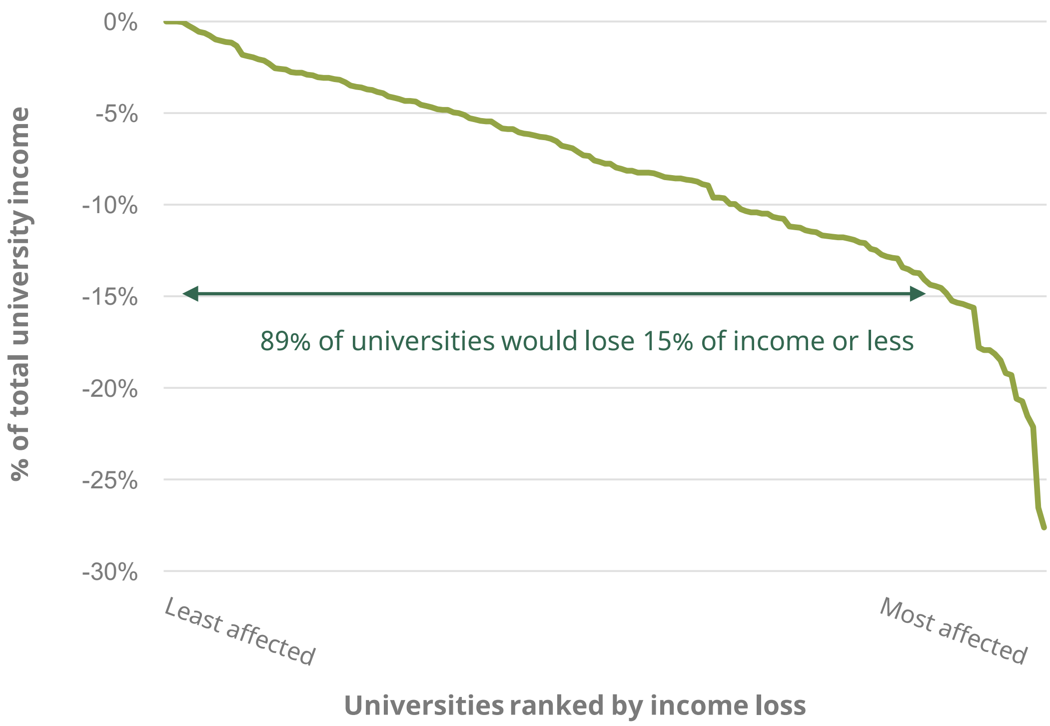
One key issue facing the UK sector is a potentially steep drop in demand from the approximately 270,000 international students who were expected to start a new university course in September. Uncertainty over whether courses will proceed as usual, travel restrictions, or usual services (such as visa offices and language testing centres) not being up and running in time to admit new students – as well as a potential increased desire to study closer to home – are just a few possible reasons why we might see a decline in numbers.

In the 2018-19 academic year (the last year for which we have university income data), international students accounted for one in five students at UK universities. The fee income from international students alone was nearly £7 billion, around 17% of the total income of the sector (37% of total fee income). Reduced enrolments of students from outside the UK could therefore have a significant detrimental impact on the finances of the HE sector, but how policy reacts will determine where this impact is felt most.

How important are international students for university revenues?

International student bodies vary substantially across the different universities in the UK, meaning the impact of large student number drops would not be evenly distributed throughout the sector. If *no* new international students enrolled next academic year, the HE sector would lose around 10% of income, assuming no changes in domestic student numbers and no effect on existing overseas students. For nearly 90% of universities the loss in income would be 15% or less, but a minority of universities would lose 20% or more of their income. If instead *all* international students were to go, that is, both existing students and new entrants, losses to the sector would be nearly twice as large at 17%.

Figure 1. Income change by university if no new international students



Note: This holds constant the number of domestic students at each university, and assumes existing international students continue their course.

Universities that stand to lose the most tend to be those that are higher ranked in league tables, as well as universities in London and several specialist colleges (see Table 1 for a list of the 10 universities which would be most affected). Lower ranked universities typically serve mostly UK students, leaving their finances less vulnerable to drops in international numbers (assuming domestic student numbers remain constant). For example, nearly 70% of the student body at the London School of Economics (ranked 4th in the Complete University Guide) were international students in 2018-19, while this was less than 5% at the University of Wolverhampton (ranked 124th).

Table 1. Proportion of income lost for universities with biggest potential income loss

Universities with largest loss in total income	Potential changes in total income	Universities with largest loss in fee income	Potential changes in fee income
Royal College of Art	-28%	London School of Hygiene and Tropical Medicine	-60%
London Business School	-27%	The University of Glasgow	-51%
London School of Economics and Political Science	-22%	Royal College of Art	-50%
Conservatoire for Dance and Drama	-22%	London Business School	-49%
Coventry University	-21%	London School of Economics and Political Science	-49%
University of the Arts, London	-21%	University College London	-44%
The University of Westminster	-19%	Cranfield University	-42%
City, University of London	-19%	Imperial College of Science, Technology and Medicine	-41%
Heriot-Watt University	-18%	Glasgow School of Art	-38%
Queen Mary University of London	-18%	The University of Warwick	-38%

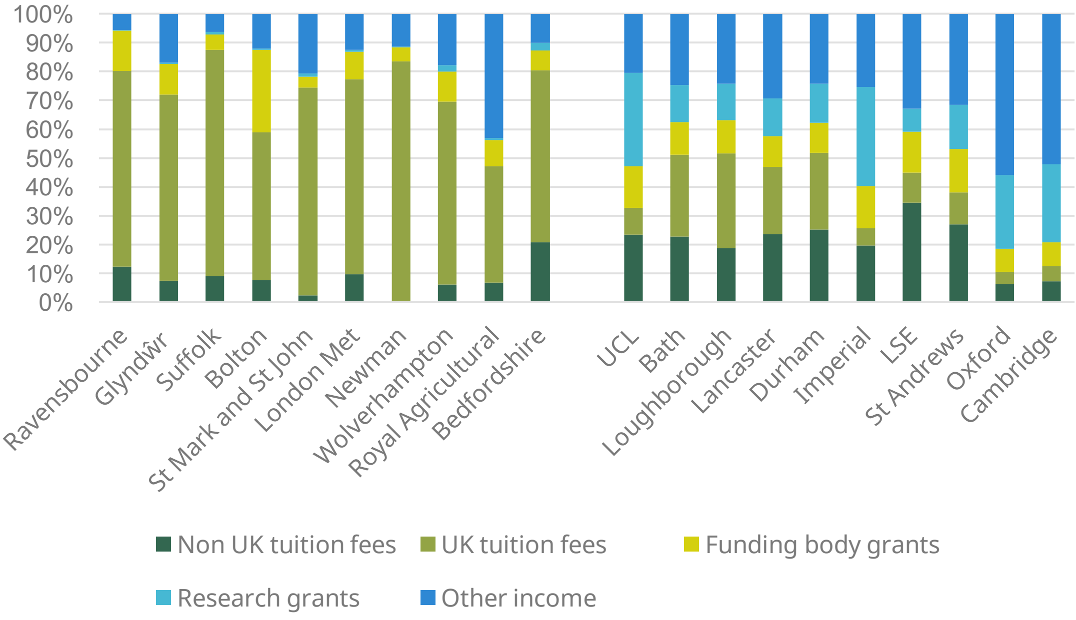
Note: The loss of income is calculated relative to university income in 2018-19, assuming no new international entrants, but no changes to numbers of domestic students or existing international students. Only universities with at least 1000 students in 2018-19 are shown.

A case for bringing back numbers caps?

Universities badly affected by international number drops may try to claw back some of their losses by increasing their domestic student intake. They may do this by for example turning conditional offers into unconditional offers or through clearing. As international students typically pay much higher fees than domestic students, simply replacing international by domestic students would provide universities with only around half of the lost revenue however. Expansion beyond this could be challenging due to capacity constraints; increasing the total number of students would require more teaching space, lecturers and accommodation at short notice.

More fundamentally, unless overall new domestic student numbers increase, some universities expanding their domestic student numbers would mean others contracting. Assuming students have a preference to go to higher-ranked universities if they have the option, this would be devastating for universities ranked further down the league tables. Tuition fees of first year domestic students account for more than a quarter of the average income of the 50 lowest ranked universities in the Complete University Guide, and in some cases more than a third. Any loss in new students would severely affect their finances. Since the total number of first year places which could be left vacant by international students (around 270,000) is roughly equal to the total number of first year places at all of the lowest ranked 50 universities put together, we might expect to see a wide set of universities severely struggling to attract students in the upcoming year. Furthermore, capacity constraints may mean that these universities may struggle to make up the lost revenue in future years.

Figure 2. Income sources for lowest (left) and highest (right) ranked universities



Note: Authors' calculations using HESA higher education finance data. "Other income" includes investment income and other non-research income. Figures relate to 2018-19.

As Figure 2 illustrates, lower ranked HEIs are particularly dependent on UK tuition fees for their income. If drops in international student numbers were to lead to a siphoning of more domestic students into higher ranked HEIs, the consequences for some of these less prestigious institutions could be very severe indeed. Despite their much higher levels of fees from international students, higher ranked institutions are in fact much less dependent on student income altogether because of the scale of the research and other funding they receive.

This leaves some difficult choices. If nothing changes there is a risk to lower ranked universities as they see their potential student body, and a large fraction of their income, moving elsewhere. Some may struggle to survive. One way of avoiding that might be to cap domestic student numbers for each university at last year's levels. While overall drops in revenue would still be large, we would expect to see fewer universities with the most dramatic losses (more than 15%). If government could step in to soften the blow for these institutions, it might be the most cost-effective way to keep the sector afloat.

Notes

1. International students includes both EU students as well as non-EU students.

2. Throughout it has been assumed that non-tuition fee income, including HEFCE grants, stays at its current level.

3. In order to calculate the lost tuition fee income from drops in student numbers, we assume the fee income per student for each university is equivalent to the total fee income the university divided by its total number of students. We calculate this separately for UK, other EU and non-EU students. This is calculated based on 2018-19 HESA data on university incomes.

4. We use the 2020 Complete University Guide ranking to rank universities.