

UK HIGHER EDUCATION AND COVID-19

HOW FEWER OVERSEAS STUDENTS COULD SPELL DISASTER FOR MANY UK UNIVERSITIES

In the first of a series of articles on the impact of the coronavirus on UK universities, we look at the effects of a likely fall in overseas student numbers.

The Covid-19 pandemic has caused disruption on an unprecedented scale in the UK, and its effects are already being acutely felt in the higher education sector. With the coming academic year likely to bring a fall in student numbers, we explore how a drop in overseas applicants could hit universities across the board.

Overseas student numbers will fall

As the next academic year approaches, disruption caused by Covid-19 continues. Travel problems, social distancing and poor economic conditions seem certain to remain in September – and together, they will likely to lead to a reduction in enrolments at UK universities.

This effect will be especially significant among overseas students. A particular attraction of UK institutions is their experiential value – but that will be sharply impacted by the pandemic.

With social distancing restricting face-to-face teaching, many courses are being moved online. Indeed, some universities (including Cambridge) have signalled a suspension of face-to-face lectures for the entire year.

Overseas students may therefore be particularly reluctant to pay sizeable international fees to study 'at' a UK university from their bedrooms. And even if face-to-face learning is possible, travel difficulties and the fear of further outbreaks will likely limit the number of international students willing to travel to the UK.

In fact, a recent survey of 11,000 students¹ suggested that nearly half of those intending to study abroad now plan to defer,² and a further fifth plan to switch their destination or abandon plans to go abroad.

Many universities rely on international fees

This forecasted fall in overseas student numbers will have serious financial implications for many higher education institutions.

Student fees as a whole have become an increasingly large source of money for HEIs over the last decade. In the last academic year, tuition fees and education contracts accounted for almost half of all university income (£20 billion).³

At £6.5 billion, fees from overseas students make up more than one-third of all tuition fees.⁴ Such students therefore represent a large portion – 17% – of overall income.⁵ Many institutions rely on

¹ This survey was carried out by QS, an international educational rankings agency.

² 'Coronavirus: universities face a harsh lesson', *Financial Times*, <https://www.ft.com/content/0ae1c300-7fee-11ea-82f6-150830b3b99a>.

³ Frontier Economics analysis of Higher Education Statistics Agency (HESA) data on consolidated income and expenditure.

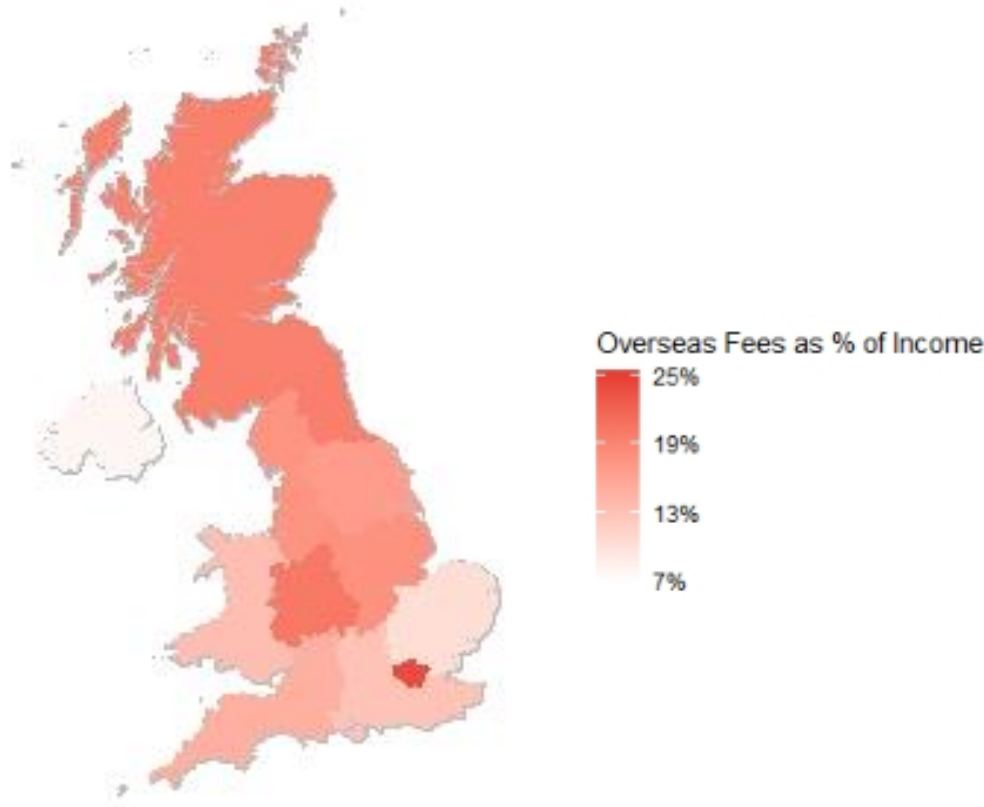
⁴ Frontier Economics analysis of HESA data on tuition fee breakdowns by institution and domicile.

⁵ Ibid.

international fees to ‘underpin vital work that otherwise goes under-funded,’ as Tim Bradshaw, Chief Executive of the Russell Group, has explained.

A significant decline in overseas fees would therefore put these universities at great risk, with those in London, according to data from the Higher Education Statistics Agency, disproportionately affected.

Figure 1 Overseas fees as % of income



Source: Frontier Economics using HESA data.

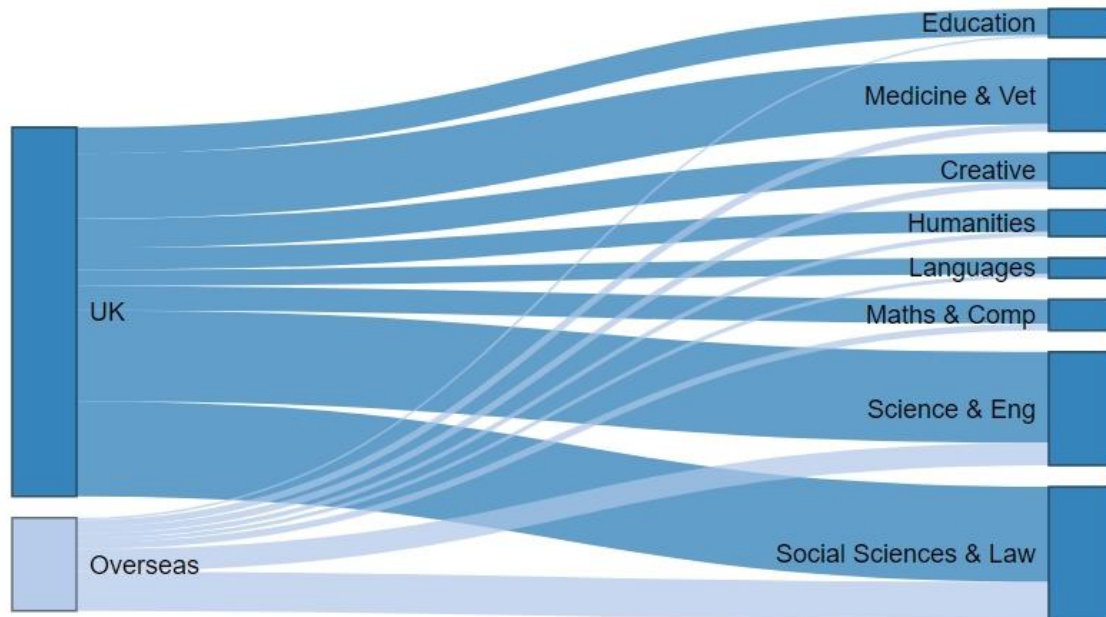
Note: The heat map shows the percentage of total income that universities have received from students outside the UK, averaged across the last two completed academic years (2017/18 and 2018/19). The institutions in the HESA data have been cross-referenced with The Complete University Guide, to create the list of universities used in this analysis.

But there will be large ripple effects across the entire sector

The worse affected HEIs are likely to seek to replace lost international students with domestic ones. Whilst this could be fruitful for some institutions, the limited pool of potential domestic students from which to draw means it cannot work for all. The effect of the fall in international students will likely ripple out from those institutions directly affected to their competitors who recruit more heavily from the domestic pool. Ultimately, the institutions that suffer the loss most severely may not be those who relied most heavily on international recruitment in the first instance.

As well as varying by institution, the proportion of overseas students at UK universities differs by subject. According to HESA, students from abroad make up a fifth of the overall population, but by course, this ranges from less than 8% in ‘subjects allied to medicine’ to over 37% in ‘business and administrative studies’.⁶

⁶ Frontier Economics analysis of HESA data on student numbers by subject and domicile.

Figure 2 Student numbers by domicile and subject area

Source: Frontier Economics using HESA data.

Note: The chart shows the percentage of total students for each course who come from overseas, averaged across the last two completed academic years (2017/18 and 2018/19). Included are the 19 HESA subjects of study, merged into eight subject areas.

This significant variation across disciplines means that some departments are likely to experience larger revenue shortfalls than others. These departments could be put under considerable pressure by university management to make changes, including drastic alterations to teaching methods or even cutting entire courses.

But these departments would not be the only ones to feel the pinch. Fees paid by overseas students cross-subsidise fees paid by home students⁷ – in other words, some of the income generated by departments with high numbers of overseas students is used to support other departments with low numbers of them. As stated in a 2018 government report, ‘cross-subsidisation ... make[s] some courses or modules viable when they otherwise would not be.’⁸

It’s therefore likely that a revenue shock of the magnitude we expect would reverberate around multiple – if not all – university departments.

Should the government step in?

The naive response is to argue that higher education institutions should cut costs associated with overseas provision to remain solvent overall. But this misses the bigger picture. The cost of higher education cannot be neatly packaged into per-student bundles. Many costs (e.g. lecturer salaries, student support, and outreach services) do not scale directly with student numbers. Cutting these would harm provision for all.

In fact, this approach could actually incentivise universities to overfill cheap-to-run courses in order to cross-subsidise more expensive ones. This is against the Office for Students’ desired direction of travel, and would arguably damage the reputation of the sector in the long term. And if the true cost of provision lies above the domestic fee level for a sufficient number of courses, even additional domestic students will not make these courses sustainable.

⁷ Migration Advisory Committee, *Impact of international students in the UK*, 2018.

⁸ Ibid.

The HE sector makes an enormous contribution to the success of the UK economy. Five years ago higher education was estimated to be worth £95 billion, and to support nearly one million jobs.⁹ Considering the rate of universities' growth in recent years, these numbers are also likely to have increased considerably since then.¹⁰ What's more, rising numbers of international students mean tertiary education is a growing export.

Universities are also forerunners in key areas of research, including the search for a Covid-19 vaccine, and they help the government to address societal challenges, such as regional growth and social mobility – for example, the proportion of BAME students going to UK universities has increased from 18% to 24% since 2009-10¹¹.

But trends like these could be reversed if significant numbers of disadvantaged students choose not to pursue higher education given deteriorating economic conditions, and the possible failure of relevant HEIs.

So will the UK Government intervene to bail out the universities? Despite announcing a series of measures¹², they have so far rejected the HE sector's request for a £2 billion rescue package.¹³ Yet, Universities Minister Michelle Donelan has acknowledged that 'universities are still continuing with their overheads and their expenses during this time, and it's no fault of their own.'¹⁴

In the absence of government support, some universities will no doubt be able to weather the storm, thanks to reserves of cash or relatively low reductions in enrolments. For others, however, there may be few options available, and drastic measures such as mergers may be the only way out.

Other sectors that have gone through a process of consolidation in recent years – such as healthcare, and further education – may offer important lessons on how to manage successful institutional mergers.

But while it is clear the government has many competing priorities, the importance of universities and the enormous benefits they bring to the UK mean the government should very seriously consider the case for providing urgent support.

⁹ 'Universities "generate £95 billion for UK economy"', *Times Higher Education*, <https://www.timeshighereducation.com/news/universities-generate-ps95-billion-uk-economy>.

¹⁰ Ibid. Research found that universities' gross contribution to the economy had risen by 15% over the previous three years.

¹¹ <https://universitiesuk.ac.uk/facts-and-stats/data-and-analysis/Documents/higher-education-facts-and-figures-2019.pdf>

¹² See for example: <https://www.gov.uk/government/publications/support-for-university-research-and-innovation-during-coronavirus-covid-19/university-research-support-package-explanatory-notes>

¹³ 'Coronavirus: Online students face full tuition fees', *BBC News*, <https://www.bbc.co.uk/news/education-52506283>.

¹⁴ Ibid.

Danail Popov



+442070317051



+447875390263



danail.popov@frontier-economics.com