



Increasing university income from home and overseas students: what impact for social mobility?

Centre for Economic Performance, London School of Economics

September 2010

Introduction

This short note describes a basic analysis of the two most likely options that universities in England have of generating more income from student financial contributions in the future: raising contributions (or fees) from home (UK and European Union) students; and expanding numbers of international (non-EU) students who already pay full and unregulated fees. The question posed is what implication these possible income streams have for social mobility -- ie the future enrolment of underprivileged or non-privileged home students in the country's leading research universities and in higher education in general¹.

Against a backdrop of the expected cuts to core university budgets in the Government's forthcoming Comprehensive Spending Review, student finance and university student numbers are topics that are currently receiving much attention in higher education policy debate. The Independent Review of Higher Education Funding and Student Finance will shortly publish its recommendations to Government on the future of fees policy and financial support for full and part-time undergraduate and postgraduate students².

This analysis is based on available data on the sector to date including recent trends on the increasing numbers of overseas postgraduate and undergraduate numbers, as well patterns for student fees where they are currently allowed to vary by institution and degree course – for international students, and for postgraduate courses. They provide an insight into possible future trends of student numbers and charges, if fees, or graduate contributions, are allowed to vary in the same way for home undergraduates. The implications for the enrolment of less privileged students into university are considered.

The figures have been produced by research economist Richard Murphy and Professor Stephen Machin at the Centre for Economic Performance at the London School of Economics – as part of a project commissioned by the Sutton Trust exploring the growth of undergraduate and postgraduate numbers and their effect on intergenerational mobility.³

¹ This analysis is part of wider report commissioned by the Sutton Trust into the social composition of postgraduate students. See: <http://www.suttontrust.com/research/the-social-composition-and-future-earnings-of-postgraduates/>

² <http://hereview.independent.gov.uk/hereview/>

³ We would like to thank the Higher Educational Statistical Agency (HESA) for the use of their data. HESA does not accept responsibility for any inferences or conclusions derived from the data by third parties

Options for increasing university income from students

Universities generate income from numerous sources: research grants, student fees, residence charges, and government subsidies. The money from government can be split into three sources of income: money for research, buildings, and students. This paper is solely concerned with the revenues generated by student fees.

If individual universities want to increase income from students, either from the government or the students themselves, the 5 main routes available to them are:

1. *Increasing fees (or financial contributions) of UK/EU undergraduate students*
2. *Increasing the number of UK /EU Students*
3. *Changing the subjects taught to UK /EU students to subjects that attract higher levels of government funding (for example laboratory based subjects attract more funding than standard subjects)*
4. *Increasing fees of non-EU students, or UK/EU postgraduate students*
5. *Increasing the number of non-EU students or postgraduate students*

However, there are a number of constraints on these routes:

1. *Despite the introduction of capped variable fees for home undergraduates at universities in England, the vast majority of courses already charge the maximum annual fee level allowed - £3,290 for 2010/11 – although this issue is at the heart of Lord Browne’s current review.*
2. *Strict limits have been introduced on the numbers of UK/EU students universities can recruit, with fines of £3,700 per student when universities exceed their limit.*
3. *There are many practical difficulties involved in changing a significant amount of degree courses to increase price.*
4. *Universities face an increasingly competitive market for international and home postgraduate students, limiting any large fee increases.*
5. *Fears over the mis-use of student visas for purposes other than education threatens a reduction in the numbers available for overseas students – but nonetheless, numbers have increased substantially over the last decade.*

This paper considers the implications of two options seen as most likely to offer realistic prospects for raising income in the future: increasing fees (or financial contributions) of UK/EU undergraduate students; and increasing the number of non-EU students or postgraduate students.

Option 1: increasing the contributions of UK/EU undergraduate students

The maximum fees charged to undergraduate students from the UK/EU are set annually and currently stand at £3,290 for 2010/11, with the vast majority of university courses in England charging this maximum amount. These fees are on top of funds allocated directly by Government to universities for teaching students⁴.

Among the options being currently considered by Lord Browne's review of student finance is increasing the level and variety of contributions from undergraduate students - whether through increased fees, contributions after graduation, or through a graduate tax. At the same time the Government is considering large cuts to the funding directly to universities for teaching, partly to be compensated for by higher contributions from students..

Whilst we cannot be sure how universities will respond under a different student finance system, we can get an indication of how home undergraduate charges or fees might vary in the future under less constraints, and with less Government support directly to universities, by looking at the currently unregulated, mostly 'full cost', fees for non-EU undergraduate students, and postgraduates.

As far as we are aware, the levels and patterns of unregulated fees in England have not been documented in detail up to now. Table 1 below however shows how undergraduate fees for non UK/EU students varied in the year 2010/11 for 20 different universities across six subject areas – Physics, Maths, Economics, Business, Computer Science, and English.

The first thing to note is the scale of the fees – of the order of three to five times the amount of current annual fees paid for by home undergraduates - once current Government contributions to fees are taken into account.⁵ In some subjects, there are also considerable differences in fees charged by different universities, with some institutions charging almost double those of others. The levels of fees are broadly correlated to the reputation of universities (The table lists the 2011 university rankings published by the Times newspaper) – consistent with economic theory that would model a university's reputation as an equivalent proxy for demand for student places. However, this is not the sole factor at play: there are particularly high fees for universities based in London.

The levels of fees vary between different subject areas, noticeably lower for English for example. There is also much less variation of fees in some subject areas, such as English, compared with others such as physics and computer science.

⁴ The funding, which is weighted more heavily for scientific and medical subjects, is allocated via the Higher Education Funding Council for England. See: http://www.hefce.ac.uk/pubs/hefce/2008/08_33/

⁵ The comparisons are made by subtracting current Government subsidies for undergraduate fees from the fees listed for overseas students so they are comparable with current undergraduate fees.

Table 1: Undergraduate fees for overseas students for 20 universities

	Physics	Maths	Economics*	Business	Computer Science	English	Rank
Oxford	14,000	12,200	12,200	NA	14,000	12,200	1
Cambridge	14,073	10,752	10,752	NA	14,073	10,752	2
Imperial	20,750	21,400	NA	NA	21,400	NA	3
LSE	NA	NA	13,680	NA	NA	NA	5
Durham	14,865	11,400	NA	11,400	11,400	11,400	6
UCL	16,725	12,770	12,770	16,725	16,725	12,770	7
Warwick	15,000	11,500	15,000	15,000	15,000	11,500	8
Lancaster	13,060	13,060	12,060	12,060	13,060	10,500	10
Exeter	13,200	11,100	11,100	11,100	13,200	11,100	12
Bristol	14,950	14,950	11,900	NA	14,950	11,900	14
Southampton	13,300	10,400	10,400	10,400	10,400	10,400	19
Manchester	14,200	14,200	10,800	10,800	14,400	11,300	30
Reading	NA	10,200	10,200	10,200	12,300	10,200	35
Hull	11,900	NA	NA	9,800	11,900	9,800	48
Oxford Brookes	NA	10,200	10,400	10,400	10,200	10,200	51
Lincoln	NA	NA	NA	10292	10914	10292	62
Portsmouth	NA	9,200	9,200	9,200	9,200	9,200	74
Coventry	NA	8,560	8,560	8,560	9,100	8,560	84
Bedfordshire	NA	NA	NA	8,950	8,950	8,950	101
Derby	NA	8,500	NA	8,500	8,500	8,500	104

*Economics at Oxford is represented by the course Philosophy Politics and Economics

Similar trends exist for overseas students taking postgraduate qualifications – particularly one year Masters degrees, as shown below in table 2 for the same 20 universities. There is significant price dispersion amongst universities but in general there are higher fees for universities ranked more highly. Again, fees are particularly high for prestigious London based universities.

Table 2: Postgraduate fees for overseas students for 20 universities

	Physics	Maths	Economics*	Business	Computer Science	English	Rank
Oxford	NA	12,200*	12,000	NA	14,000	12,000	1
Cambridge	14,073	10,752	14,715	NA	14,073	10,752	2
Imperial	19,100	16,000	NA	NA	21,550	NA	3
LSE	NA	NA	19,224	NA	NA	NA	5
Durham	14,865	11,400	NA	11,400	11,400	11,400	6
UCL	18,245	14,000	14,600	NA	18,245	14,000	7
Warwick	NA	11,500	15,000	13,800	15,000	11,500	8
Lancaster	NA	NA	16,500	NA	13,060	10,500	10
Exeter	NA	13,200	11,100	NA	NA	11,100	12
Bristol	NA	NA	12,140	NA	NA	11,900	14
Southampton	13,900	11,000	11,000	11,000	13,900	11,000	19
Manchester	NA	14,400	11,300	NA	14,400	11,300	30
Reading	NA	10,200	10,200	10,200	12,300	10,200	35
Hull	11,900	NA	NA	9,800	11,900	9,800	48
Oxford Brookes	NA	NA	NA	10,710	11,110	10,350	51
Lincoln	NA	NA	NA	10,747	11,954	10,747	62
Portsmouth	NA	NA	9,700	9,700	9,700	NA	74
Coventry	NA	NA	NA	9,360	9,870	NA	84
Bedfordshire	NA	NA	NA	9,300	9,300	NA	101
Derby	NA	NA	NA	8,950	8,950	NA	104

The other set of fees that would give an indication of what the non regulated fee market may look like are the fees charged to domestic students undertaking taught postgraduate courses. Again we see in broad terms that variation in fees according to university reputation. The variation in fees charged also varies across subjects.

Subjects generally associated with higher salaries, such as Economics and Business have the highest differences between maximum charged and minimum, reflecting perhaps the expectations of labour market returns for such degrees. Perhaps the course most directly associated with increased earnings is a Masters of Business Administration (MBA). Among this sample of 15 universities the highest fee is six times the lowest fee level charged for a domestic student.

Table 3: Postgraduate fees for home students for 20 universities

	Physics	Maths	Economics*	Business	Computer Science	English	Rank
Oxford	NA	3466*	6,750	NA	3,466	3,466	1
Cambridge	3,465	3,465	8,553	NA	3,465	3,465	2
Imperial	3,466	5,500	NA	NA	4,466	NA	3
LSE	NA	NA	19,224	NA	NA	NA	5
Durham	4,200	4,200	NA	4,200	4,200	4,200	6
UCL	4,865	4,865	11,555	NA	4,865	4,865	7
Warwick	NA	5,820	5,820	8,800	5,820	5,820	8
Lancaster	NA	NA	10,000	NA	4,170	4,170	10
Exeter	NA	4,500	4,500	NA	NA	4,500	12
Bristol	NA	NA	5,060	NA	NA	4,450	14
Southampton	3,466	3,466	3,466	3,466	3,466	3,466	19
Manchester	NA	3,500	3,466	NA	5,400	3,466	30
Reading	NA	4,200	4,200	4,200	4,200	4,200	35
Hull	3,390	NA	NA	7,000	3,390	3,390	48
Oxford Brookes	NA	NA	NA	8,550	4,430	4,320	51
Lincoln	NA	NA	NA	3,694	3,694	3,694	62
Portsmouth	NA	NA	4,000	4,400	3,466	NA	74
Coventry	NA	NA	NA	3,720	3,720	NA	84
Bedfordshire	NA	NA	NA	4,635	4,635	NA	101
Derby	NA	NA	NA	5,940	4,680	NA	104

Table 4: MBA fees for 16 universities

	UK/EU	Other
Cambridge	36,000	36,000
Manchester	34,400	34,400
Imperial	34,000	34,000
Oxford	33,000	33,000
Reading	33,000	33,000
Lancaster	23,500	23,500
Warwick	22,850	22,850
Exeter	18,500	18,500
Durham	18,500	18,000
Oxford Brookes	18,390	18,390
Southampton	16,750	16,750
Hull	16,500	16,500
Portsmouth	13,800	15,250
Bedfordshire	13,500	13,500
Coventry	7,800	10,590
Lincoln	6,386	11,350

Implications for future undergraduate charges

While the figures presented above are not exhaustive, they provide an indication of what could happen if the financial charges for undergraduate courses at universities in England are allowed to vary more than they do currently. Given the patterns for overseas students and postgraduate courses, we would see undergraduate fees or charges rapidly increase, particularly for those universities with the highest academic reputations, and particularly for degree courses with the highest financial returns. There are obvious concerns that such large variations might deter students from less privileged backgrounds from embarking on particular degree courses – solely on financial grounds. We will discuss this further at the end of the note.

Option 2: increasing the number of non-EU students or postgraduate students

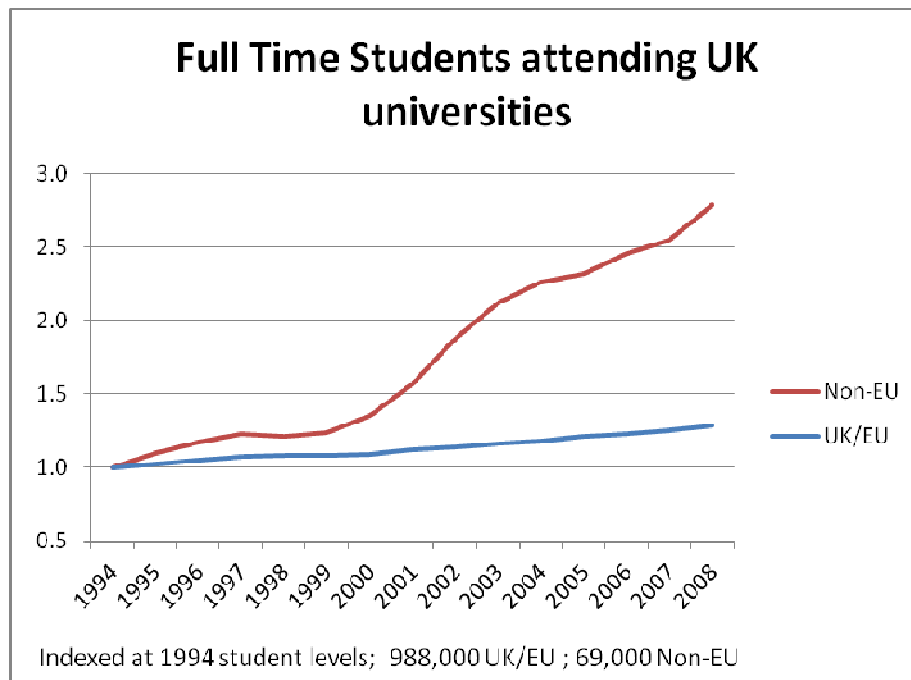
The fee income from non-EU or overseas students has been growing at a significant rate at UK universities. In 2008/09, the total fee income from such students stood at £2.18bn, two and a half times greater than it was just 8 years previously (£0.88bn). Overseas fees account for 8.6% of all universities' income – compared with 15.5% from home fees.

There are currently 1,231,000 full time undergraduates in the UK and 232,000 full time postgraduates, of which 149,000 (12%) and 125,000 (54%) are from overseas (EU and non-EU).⁶ With a good international reputation, UK universities are in a prime position to recruit overseas students, and they have capitalised on this, more than doubling the amount of non EU students in the last 10 years, currently standing at 193,000. The majority of this growth has come from Asia.

Recent growth in student numbers

The following graphs represent the relative growth rates of students (both postgraduate and undergraduate) from outside and within the EU relative to their 1994 levels. In 1994, there were 988,000 UK and EU students, and 69,000 non-EU students. Since then, there has been a large rise in the number of non EU students, and by 2008 there were nearly 3 times as many as there were in 1994 (an extra 123,000 students). For UK and EU students the growth has been less strong relative to their starting values, with an increase in numbers of around 30% (although in absolute terms their growth has been larger, with 283,000 more students).

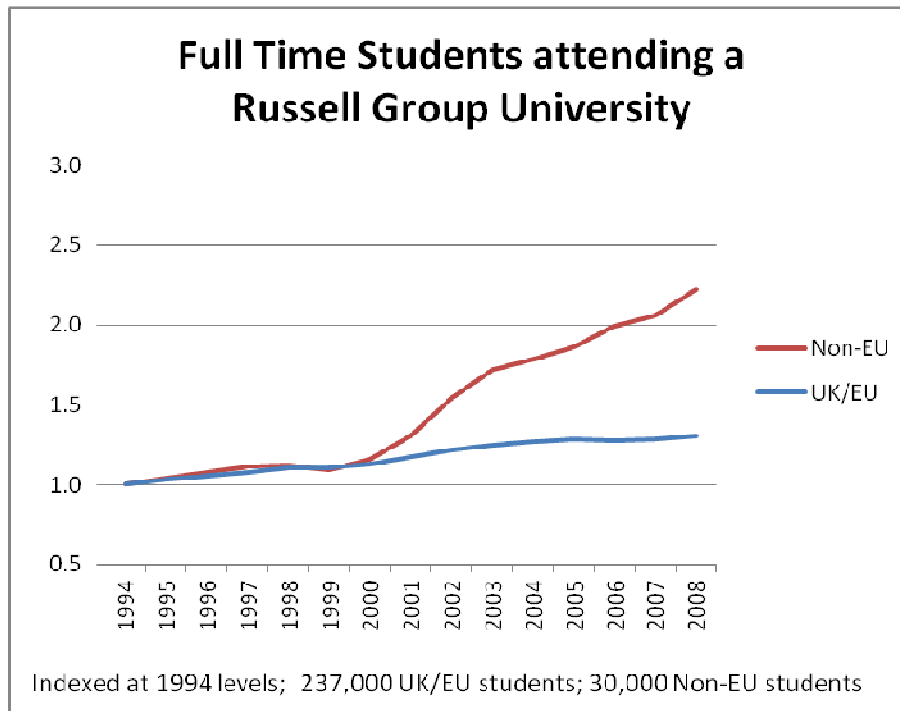
Figure 1: relative increases of overseas and home students



⁶ The numbers of students from outside the EU are 95,000 (8%) and 98,000 (42%) when including EU with UK

Figure 2 meanwhile shows similar trends exist for research intensive universities, represented here by members of the Russell Group.⁷ In 1994, there were 237,000 UK and EU students and 30,000 non-EU students. By 2008 there were there were 310,000 UK and EU students, 73,000 more than 14 years previously, and 66,000 non-EU students, 36,000 more than in 1994. These equate to 31% and 122% increases respectively.

Figure 2: relative increases of students at Russell group universities

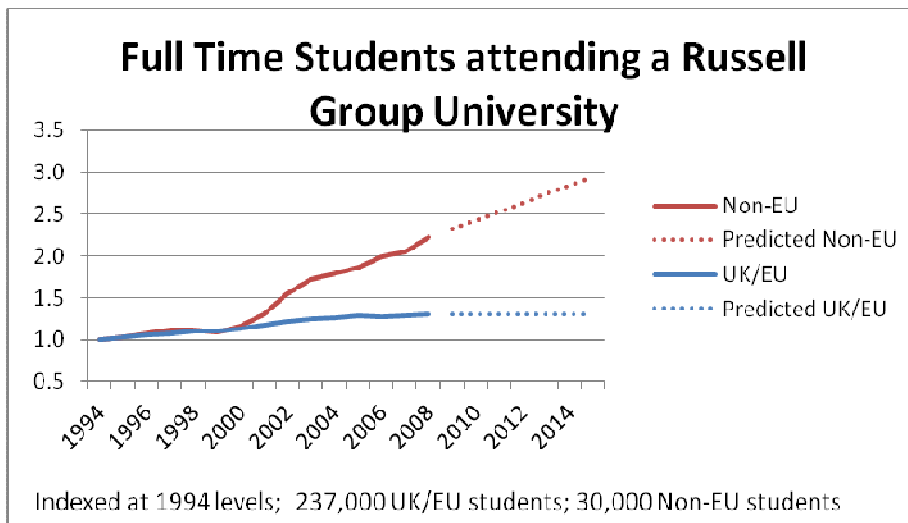
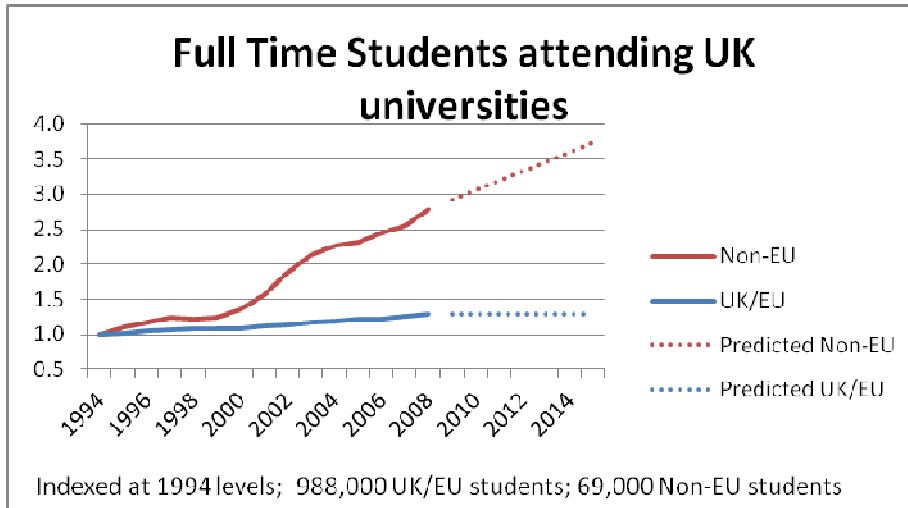


⁷ The Russell Group is composed of the following universities: Birmingham, Bristol, Cambridge, Cardiff, Edinburgh, Glasgow, Leeds, Liverpool, Manchester, Newcastle, Nottingham, Oxford, Sheffield, Southampton, Warwick, Imperial College, London, King's College London, London School of Economics, Queen's University Belfast, and University College London.

Future projections

The figures below suggest future possible projections of growth for non-EU students over the next five years assuming a similar trend since 2002, and assuming the current cap on numbers for home students continues. Under these assumptions by 2015 there will be 1,271,000 UK/EU students, and 258,000 non-EU students (17% or 1 in 6 of all students)⁸. Non-EU students would make up 10% of undergraduates by 2015 and 50% of postgraduates. Meanwhile by 2015 there will be 310,000 UK/EU students at Russell Group Universities and 87,000 non EU students (22% of the total).⁹

Figure 3: Future projections of overseas and home students



⁸ These numbers are made up of: 1,137,000 home undergraduates and 123,000 international undergraduates (10%); and 135,000 home postgraduates and 134,000 international postgraduates (50%)

⁹ This is made up of: 258,000 home undergraduates and 41,000 international undergraduates (14%); and 51,000 home postgraduates and 46,000 international postgraduates (47%)

Increasing fees

The median postgraduate fees across the sector currently stand at £9,500 for non laboratory subjects and £11,500 for laboratory subjects, with undergraduate fee levels for non-EU students following just below at £9,350 and £10,900 (2009/10). These fees have increased on average by 30% and 40% respectively since 2002/03. But the growth of these unregulated fees has been higher in the research intensive Russell group universities where non laboratory subject fees have grown by 40%.

Given the increases in fees already, and the strong international competition for overseas students, the likely strategy for universities in the future will be to increase numbers of overseas students at similar current fee levels.

Implications of increasing overseas student numbers

In the following section we consider the possible impact on social mobility of increasing international student intakes - while home student numbers are held constant. But it is also worth noting a number of potential benefits as well as costs from increasing numbers of overseas students for universities and the UK economy as a whole.

Potential benefits include:

- ❑ Incomes from overseas students can provide the resources for increased numbers of degree places for domestic students.
- ❑ Domestic students may also gain through positive peer effects of highly motivated and able overseas students (and get the opportunity to learn about the wider world besides their core studies).
- ❑ Attracting the best international postgraduate research students contributes to world class research in the UK.
- ❑ International students' spending on goods and services whilst in the country is estimated at £2.3bn a year.¹⁰
- ❑ Overseas students staying on in the country contribute as tax payers and high ability workers.
- ❑ International students who return to their own countries could be more likely to source goods and services from UK companies

Potential costs include:

- ❑ Crowding out of domestic students by increasing amounts of international students.
- ❑ Negative peer effects, if the international students are not well prepared for the course. The accepting of less able international students could be a consequence of limiting the places

¹⁰ Kelly & McNicoll 2009

for domestic students, so to fill any spare capacity and maximise revenues universities may lower the entry requirements for non-EU students.

- ❑ Increased student teacher ratios
- ❑ If international students have displaced domestic students and then return to their home countries, then the potential productivity of a graduate has been lost to the UK economy.
- ❑ Increased competition for graduate jobs is harder for domestic students, but on a national level the country does not suffer assuming the students are of the same ability.
- ❑ Flow of British techniques and technologies abroad as students return to their countries of origin, reducing the UK's technological advantage in various fields.

Conclusions & Policy Implications

This simple analysis of likely future funding strategies to increase income from students raises at least two major concerns about the continuing access of less privileged home students to leading research universities, and into higher education in general. With the prospect of significant future funding cuts, university access remains a key challenge for the higher education sector.

Higher fees

The first concern is that less privileged home students are deterred in the future from applying to undergraduate degree courses because of the costs they will incur – before, during or after university. As the patterns for current overseas student fees demonstrate, charges for degree courses are likely to escalate rapidly if completely unregulated. At the highest end of the market, this could mean annual fees perhaps five times the current annual undergraduate payments – assuming that current Government subsidies continue.

We are also likely to see charges rise in particular for those universities with the highest academic reputations, particularly for degree courses with the highest financial returns – and it is here that the access issue is most acute. In the appendix we present figures showing the extent to which the social composition of current students already varies for different subject areas at university. One further concern is that in the future these differences are exacerbated if Government cuts to fee subsidies fall disproportionately on particular academic disciplines. With higher fees, these subjects may become off-limits for less privileged students.

Recent surveys of future prospective students suggest that a substantial hike in fees would deter a large number of pupils from going to university, with over three-quarters saying they would be unlikely to go if annual undergraduate fees were increased to £10,000 a year.¹¹ Meanwhile the Sutton Trust has highlighted particular concerns over the enrolment of non-privileged students to elite research universities which during the last decade has flatlined - in contrast to some progress made for the higher education sector as a whole.¹²

We do not offer here an appraisal of the potential impacts on social mobility of the different financial systems currently being considered for universities in England by Lord Browne's review as well as the Government. However, a key question for any future system, whether based on fees, graduate contributions or a graduate tax, is whether it adequately addresses concerns that poorer students will be deterred from high cost degrees despite their educational value, and the social gap in higher education attainment widens further. In that context, a complete removal of the fees cap would seem to be a big risk in terms of widening access to leading universities, as would lifting it to anything approaching £10,000 a year.

In addition, any future system will require a comprehensive set of grants, loans and support for less privileged students, but also much improved information, advice and guidance on the relative benefits of different degree courses. In its submission to Lord Browne's review, the Sutton Trust outlines a series of proposals including piloting a scheme whereby students from low income homes should get their first year of university for free. The free first year it is hoped would alleviate some of

¹¹ <http://www.suttontrust.com/research/young-people-omnibus-2010-wave-16/>

¹² <http://www.suttontrust.com/research/sutton-trust-submission-to-sir-martin-harris/>

the risk and uncertainty that deter non-privileged students from applying to certain courses and institutions.¹³

Overseas students

The second concern for social mobility highlighted in this note is that if universities can not raise income from higher contributions from home students in the future, then they will increasingly prioritise the recruitment of greater numbers of overseas students instead. The dramatic growth in overseas numbers over recent years is documented here – but what needs to be remembered is this has occurred during an era of growth for home students at the same time.

Preliminary analysis suggests that the recruitment of overseas students to date has not displaced home students, but has been additional to them. But what would happen in a future scenario of fixed home student numbers and limited extra income from home students – would we see universities focusing much more on the international market rather than in widening access and fostering home-grown talent? The future projections presented suggest that if home student numbers continue to be capped, then non-EU students could make up 17%, or 1 in 6, of all students by 2015. At Russell Group universities meanwhile non EU students would make up 22% of all students at these research intensive institutions¹⁴.

An associated problem in terms of social mobility is that further growth in home student numbers is most likely necessary if widening access is to continue. The Sutton Trust has highlighted this issue for the enrolment to the most selective university courses in particular. The increase in intakes from those from under-represented groups at highly selective universities in the last few years largely mirrors the overall expansion of places at those universities, rather than resulting from the displacement of other students from better-off homes. Capping growth in home student numbers will inevitably hinder attempts to improve social mobility – one of the Government's declared aims in relation to the Browne review.

Again we do not offer here a detailed analysis of how a future student funding (and support) system might allow individual universities to continue to expand their home student numbers. But this remains a key question for social mobility in light of the likely incentives to focus on expanding overseas students numbers instead. How can individual universities be allowed to expand home student numbers in a financially sustainable way?

Part of the solution may be to introduce financial incentives for universities to recruit poorer students, as suggested in the Sutton Trust's submission to the Browne review. The Trust proposes the creation of a bounty fund of tens of millions of pounds a year to reward universities that make special efforts to recruit such students. At the same time it is argued that universities which wish to charge higher tuition charges must deliver an extended programme of high quality outreach and access work.¹⁵

¹³ <http://www.suttontrust.com/research/submission-to-review-of-he/>

¹⁴ Another related issue is whether universities should be allowed to charge overseas fees for extra home students, once degree numbers have been filled. Anecdotally many leading research universities are reporting that they are getting offers from home students to pay international fees.

¹⁵ <http://www.suttontrust.com/research/submission-to-review-of-he/>

Appendix

Parental Socio Economic Classification of Native Graduates by Subject Group (2008)

Subject Group	Parental Occupational Group	
	Higher Managerial & Professional	Lower Supervisory, Technical, Routine, LT Unemployed
Medicine & dentistry	47.2%	10.0%
Veterinary science	33.2%	15.5%
Languages Historical & philosophical studies	30.1%	15.2%
Physical & Mathematical sciences	29.4%	18.4%
Engineering & Architecture	28.4%	20.1%
Average	26.6%	19.7%
Creative arts & design	24.3%	21.2%
Computer science	22.6%	27.6%
Business & Mass communications studies	22.8%	22.4%
Education	17.4%	26.7%