

Current Issues Note 28

**The potential impact of a Tier 4 immigration cap on  
UK and EU-domiciled students' fees**

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**Greater London Authority  
February 2011**

**Published by**

Greater London Authority  
City Hall  
The Queen's Walk  
London SE1 2AA

**[www.london.gov.uk](http://www.london.gov.uk)**

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ISBN: **978-1-84781-423-4**

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## **Contents**

Executive Summary .....	2
Introduction .....	2
Estimating the impact of reduced foreign student numbers – methodology and assumptions .....	2
The potential impact on the capital.....	4
Robustness of the methodology .....	5
Conclusions.....	6

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# **Executive Summary**

Non-EU students are a valuable source of income for universities. Any reduction in the number of non-EU students allowed to study in London will have financial impacts for the capital's Higher Education Institutions. If the fall in universities' incomes were to be made up entirely and solely from increases in the fees paid by UK and EU-domiciled students then if the number of non-EU students were to fall by 25% the increase in UK and EU-domiciled student fees might be expected to be at least £300 per student per annum. That figure would rise to £600 or £900 with a 50% or a 75% reduction in numbers respectively.

## **Introduction**

This note attempts to review the potential financial impact of a reduction in non-EU students on Higher Education Institutions (HEIs) in London. The Government has proposed reducing the number of non-EU students permitted to enter the UK under the Tier 4 student visa entry route. However, any reduction in the number of non-EU students allowed to study in London will have financial impacts for the capital's HEIs. For the majority of universities non-EU student fees now represent between 10% and 30% of total income. Indeed, fee income from international students is estimated to amount to around £2.4 billion for HEIs in England and Wales.

This paper examines one way of assessing the scale of this direct financial impact.

## **Estimating the impact of reduced foreign student numbers – methodology and assumptions**

There are a number of ways that universities might make up for a loss in foreign (non-EU) student numbers. The simplifying assumption made here is that any lost income will be counterbalanced by an increase in the fees paid by UK and EU students<sup>1</sup>.

The lack of London-specific data means that the figures that follow are based on data for England and Wales.

### **(i) The 'average' contribution made by non-EU students**

According to data from Higher Education Statistics Agency (HESA), there were 1,907,000 domestic or EU-domiciled students studying in HEIs in England and Wales

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<sup>1</sup> It should be noted that this assumption is made purely for simplifying purposes – to provide a simple means of quantifying the potential financial impact of any change. There are, obviously, alternative ways that the loss of income could be dealt with. For instance, HEIs may look to make reductions in teaching costs (through increased class sizes for instance), look to make administrative cost savings, look to increase contributions from alumni/other organisations and look to increase the number of domestic/EU students (to increase contributions) for example.

during the academic year, 2008/09<sup>2</sup>. For the same year, there were 225,500 non-EU students<sup>2</sup>.

Universities' total income from fees and contracts was £6.16 billion. Proportions of income from fees and contracts were used to apportion the total value of fees and contracts applicable to non-EU students, although there was a significant unaccounted proportion which HESA had not attributed to either group of students. Therefore, these proportions were scaled up to eliminate the unaccounted proportion, resulting in a 61% (UK/EU) to 39% (non-EU) split.

This methodology resulted in a mean contribution per non-EU student per annum of £10,700 (i.e. 39 per cent of the £6.16 billion divided by 225,500<sup>3</sup>).

If anything this estimate would seem to be conservative judging by a close examination of fees for the 2009/10 academic year indicated for 133 universities and GLA Economics recognises that fees for some specific courses will be much higher<sup>4</sup>.

## **(ii) The shortfall in universities' incomes**

The next stage of the calculation was to calculate the total number of foreign students which would be lost if the Government were to implement a Tier 4 cap. If non-EU numbers were to be reduced by a quarter from their 2008/09 level, then that would equate to a drop of nearly 56,400 students (i.e. 225,500 divided by 4). Similarly, if the reduction were to be 50%, then that would imply a fall of nearly 112,800 and a fall of 75%, more than 169,100.

The 'per student, per annum' mean contribution is then applied to this loss of non-EU students. For example, for the 25% fall scenario, there would be an estimated shortfall of over £600 million. For the 75% fall scenario this would be £1.8 billion.

## **(iii) The increase in domestic and EU-domiciled students' fees**

Working on the simplifying assumption that all this shortfall is to be made up by domestic and EU students (and that UK and EU-domiciled numbers do not increase in response), the increase in domestic / EU student fees would be equivalent to the shortfall divided by the total number of UK / EU students. For example, in the case of the 25% fall, the £600 million is divided amongst around 1.9 million students, resulting in a 'per student, per annum' figure of £315 as shown in the first data column of Table

<sup>2</sup> For simplification purposes all student number figures have been rounded.

<sup>3</sup> Note that calculations cited in this paper may not be exact on account of rounding.

<sup>4</sup> This analysis looked at weighted averages for non-EU student fees for both London and the rest of England & Wales. For London it indicated a weighted mean for non-EU undergraduates of £12,200 per annum and for non-EU postgraduates in the capital, £13,400. For the remainder of England & Wales, it found a weighted mean for undergraduates of £10,800 per annum and weighted mean for non-EU postgraduates of £11,300.

**Current Issues Note 28:**

The potential impact of a Tier 4 immigration cap on UK and EU-domiciled students' fees

1 below<sup>5</sup>. The larger reductions in non-EU student numbers produce simple multiples in terms of universities' annual shortfalls and the impact on the annual fees of UK and EU-domiciled students.

**Table 1: Impact of three scenarios on non-EU student numbers, university shortfalls and UK and EU-domiciled student fees**

	25% reduction	50% reduction	75% reduction
<b>Fall in non-EU student numbers</b>	56,400	112,800	169,100
<b>Estimated impact on universities' shortfall</b>	£600 million per annum	£1.2 billion per annum	£1.8 billion per annum
<b>UK and EU-domiciled student fees potential increase</b>	£315 per student per annum	£630 per student per annum	£945 per student per annum

Source: GLA Economics calculations

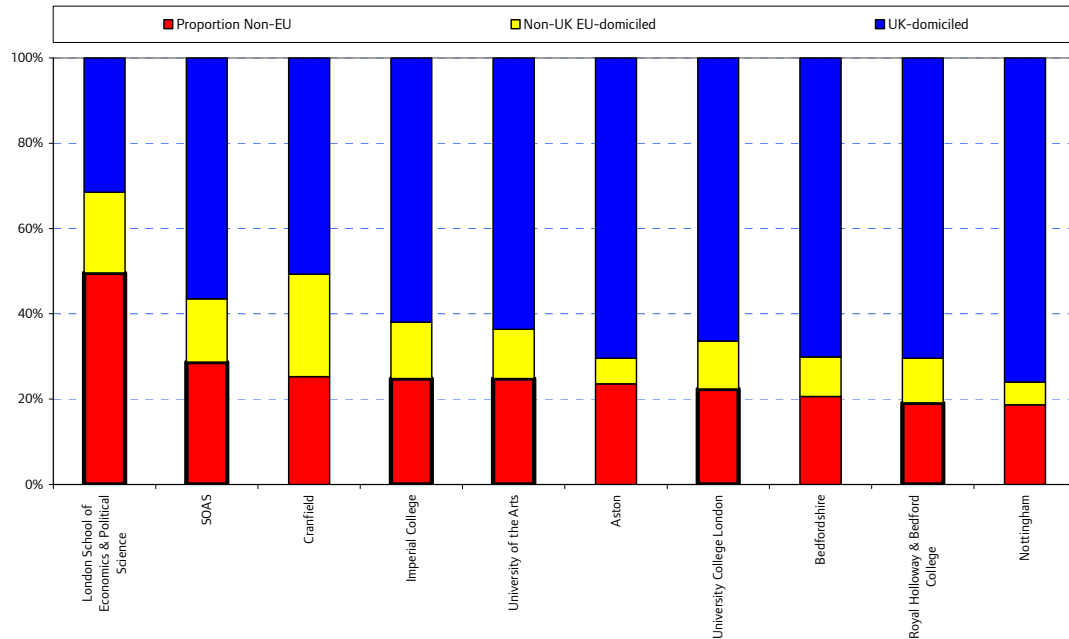
Of course, these figures are a simplification as the Tier 4 25% reduction would not reduce universities' incomes by £600 million instantly. This is because the majority of foreign students are unlikely to be studying for a one year course and their visas would not expire until the end of their course. Therefore, the £600 million annual shortfall figure would only be reached by around Year 3 and, after that, would remain constant at that level.

## The potential impact on the capital

Limited data robustness prevents a reliable estimate for London being calculated. However, the high proportions of non-EU students attending some London universities such as the London School of Economics & Political Science, the School of Oriental and African Studies (SOAS), Imperial College, the University of the Arts and University College London (UCL), suggest that the impact on the capital could be greater than elsewhere in the country.

<sup>5</sup> This simple calculation ignores distortions such as the current parents' income threshold beneath which tuition fees are mitigated and any plans to continue to protect poorer students from higher fees.

**Figure 1: Proportion of all undergraduate and postgraduate students who are non-EU. Highest percentages amongst HEIs with over 3,000 students**



Source: HESA, GLA Economics

Figure 1 (above) shows that – excluding very small HEIs – London universities accounted for five of the seven highest proportions of non-EU students in English HEIs. Royal Holloway and Bedford College – although not geographically located in Greater London – also forms part of the University of London.

## Robustness of the methodology

GLA Economics recognises that there are weaknesses in this methodology. In particular:

- This is a static calculation and takes no account of the possible dynamic response of HEIs or students to this change;
- The potential financial impact of this change on UK and EU domiciled students' fees is used for simplifying purposes only – it is likely that any financial impact will be accounted for by HEIs in a variety of ways;
- The estimates are likely to be conservative when viewed from the perspective of London HEIs. Data limitations prevent a more detailed, London level, calculation;
- There is a time lag on some of the data. At the time of the calculation the latest data available from HESA were for 2008/09;
- Data for different years and sometimes from different sources are used in the same calculation;
- For some universities student numbers had to split out over several sites. For example, the University of Greenwich has campus sites both in Greater London and the South East. However, GLA Economics holds relatively robust information on this.

**Current Issues Note 28:**

The potential impact of a Tier 4 immigration cap on UK and EU-domiciled students' fees

## Conclusions

The calculation methodology used here suggests that, if the number of non-EU students were to fall by 25% and the gap in universities' incomes were to be made up entirely and solely from the fees paid by UK and EU-domiciled then the increase might be expected to be at least £300 per student per annum. That figure would rise to £600 or £900 with a 50% or a 75% cut in numbers respectively.



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