

Post Study Work Steering Group

Evidence of Financial Cost of Post Study Work Closure

March 2016

Post Study Work Steering Group (PSWSG):

This paper collates suggested evidence illustrating what may have been the financial cost of the closure of the post study work route.

Summary:

Financial Cost to Education

- The international student recruitment of Scotland's 19 higher education institutions generates **£402.6 million per year in fees** and **£494 million in off-campus expenditure** to Scotland's economy.
- Universities Scotland conservatively estimate that **Scotland has lost out on at least £254 million** of revenue since 2012 as a direct result of the closure of the Tier 1 (Post Study Work) visa for international graduates.
- Generally, international students attending Scottish colleges **pay fees of up to £6,500 per year**. Based on this and the reduction in international student numbers between the academic years of 2008/09 and 2013/14, the total income for colleges **reduced by just over £5 million** and expenditure in the local economy in Scotland is likely to have **reduced by £8.62 million**.
- The other reports referenced are based on research in two English cities;
 - The London First report records that international students in London make a net contribution of £2.3 billion per annum, which is around £34,122 per student, on average.
 - The Oxford Economics report does not provide a contribution per student, however their modelling indicates that international students would make a net total contribution to Sheffield's Gross Domestic Product (GDP) in 2012/13 of £120.3 million.

Financial Cost to Business

- The reports referenced are based on research carried out at a UK, not Scottish level and indicate the cost to business if future skill shortages and new vacancies are not filled.
 - The Engineering UK report provides an indication of how much the Engineering sector will generate if it is able to fill the demand of new vacancies. The report forecasts that demand for 257,000 new vacancies in engineering enterprises from 2022 will generate an additional £27 billion per year to the UK economy in 2022.
 - The Skills Deficit report provides an indication of how much future skill shortages will cost the energy sector. Costs linked to skills shortages within the sector could double by 2020 to over £17 million.
- Section Three notes anecdotal reports of the financial cost of the route's closure.

SECTION ONE: FINANCIAL COST TO EDUCATION

Universities Scotland Briefing, February 2016

- Scotland's higher education sector of 19 institutions has an annual economic impact of £11 billion gross value added and supports over 140,000 jobs directly and indirectly. Within this, the value of the Scottish sector's export income, derived entirely from our international activity, stands at £1.5 billion of services in 2013/14.
- This economic contribution is realised as a result of the sector's excellence and competitiveness on an international stage, which is achieved only through the ability to attract and retain the best and brightest staff and students from across the globe.

International students have a substantial and direct economic impact in Scotland.

- The international student recruitment of Scotland's 19 higher education institutions generates £402.6 million per year in fees and £494 million in off-campus expenditure to Scotland's economy.¹
- Scottish institutions see significant slowing of growth in international students coming to the UK and Scotland specifically, whilst global mobility increases at pace so do competitor nation's enrolment figures. Hence, institutions experience loss of revenue based on student fee and related income from priority markets which in turn affect negatively institutions' planning and long-term targets in support of institutional strategies.

Universities Scotland conservatively² estimate that Scotland has lost out on at least £254 million of revenue since 2012 as a direct result of the closure of the Tier 1 (Post Study Work) visa for international graduates. This estimation has been arrived at in the following way:³

1. By calculating the cumulative loss of income that has resulted from the decline in students coming to Scotland from what were two of Scotland's key markets, India and Nigeria, during the period 2012-2015.
2. By calculating the potential income that could have been generated had Scotland's universities continued to grow its international student numbers at an annual rate of 6% from 2012 to the present day. 6% growth represents Scotland's average annual rate of growth in recruitment of international students for the three years immediately preceding the loss of the Tier 1 route in 2012.

Note: Universities Scotland are unable to put an economic value on the social, cultural and educational cost to Scotland as a result of the closure of the Tier 1 (Post Study Work) visa in 2012 but the loss of this should not be underestimated.

¹ Universities Scotland 2013/14, based on information in the Sheffield University report 2013 on 'The Economic Costs and Benefits of International Students', and Biggar Economics modelling for Universities Scotland's report 'Economic Impact of Scotland's Universities 2011-12'.

² Scotland will have undoubtedly experienced a bigger negative economic impact as a result of this policy change in 2012. There would have been additional indirect economic benefits as a result of a larger number of highly skilled international graduates contributing to the Scottish labour market through increased productivity, increased tax contributions and disposable income once in employment.

³ In both cases, Universities Scotland have used academic year 2011/12 as their baseline year as the Tier 1 (Post Study Work) visa ended in 2012.

Methodology for 1

- Over the period 2011/12 - 2014/15 the number of Indian and Nigerian students coming to Scotland has fallen from 4,515 to 3,240. This represents a drop of 1,275 students from the beginning to the end of the period, with successive declines each year.
- There are three forms of quantifiable income from the presence of international students in the UK:
 - Tuition fees** - at an average of £13,200 across undergraduate and postgraduate studies.
 - Off-campus expenditure** - last estimated to be £6,400 per student per year within Scotland.
 - Tourism** - last estimated to be £310 per student per year.⁴
- The following table illustrates the loss of income for each year that Scotland has experienced a fall in recruitment from these key markets:

Loss from key market:	2012/13 (£m)	2013/14 (£m)	2014/15 (£m)	Cumulative (£m)
India	£32.5	£39.2	£37.3	£109
Nigeria	£8.1	£11.2	£10.6	£36.7
Total	£40.6	£50.4	£47.9	£145.7

Methodology for 2

- Scotland experienced an average annual increase in international student recruitment of 6% over the three year period immediately preceding the loss of the Tier 1 (Post Study Work) visa in 2012.
- If international student numbers had continued to increase at that level, student numbers would have risen by over 5,400 to 33,963 students by 2014/15.
- Applying the same set of figures for international student spend (fees, off-campus and tourism) to the annual profile of growing international student numbers, Scotland could have seen a revenue increase along the following profile:

	2012/13 (£m)	2013/14 (£m)	2014/15 (£m)	Cumulative 2012-2015 (£m)
Average annual growth of 6% in international student recruitment would have been equal to:	£34.0	£36.1	£38.38	£108.62

⁴ See footnote 1 above.

Note: The figures in both methodology tables are likely to be a conservative estimate because the average annual off-campus expenditure and tourism spend of international students has not been revised since 2010. It is reasonable to assume that this has increased in this period as the cost of living has increased.

‘Higher Education Finance Plus 2013/14’, Higher Education Statistics Authority (HESA)⁵

As noted in the Universities Scotland briefing above, the total tuition fee income raised by Scottish Higher Education Institutions in 2013/14 from non-EU domiciled students was £402 million. This means 12.5% of all income to Higher Education providers came from non-EU domicile students’ course fees.

Devolution (Further Powers) Committee, 4th Meeting, Post-study Work Visas, 28th January 2016

Oral evidence provided by Lucy Flynn (South Lanarkshire College):

- South Lanarkshire College “have gone from having up to 150 international students a year, down to one...” and have made an “active decision to stop recruiting in areas in which we had traditionally recruited because it was becoming too challenging and costly for the organisation”.
- “International students pay fees of up to £6,500 a year. They also spend about £10,000 each, per year, in the local economy.”

Colleges Scotland Briefing, February 2016

Generally, international students attending Scottish colleges pay fees of up to £6,500 per year. Based on this, the total income for colleges between the academic year of 2008/09 and 2013/14 reduced by just over £5 million (from £17 million in 2008/09 to £12 million in 2013/14).

Between 2008/09 and 2013/14, international student enrolments at Scottish colleges have fallen by 862, from 2,725 in 2008-09 to 1,863 in 2013/14, a 32% reduction. On the basis of the evidence provided by Lucy Flynn to the Devolution (Further Powers) Committee, that each international student spends £10,000, per year, in the local economy, the fall in the number of students over this period indicates a likely loss of £8.62 million expenditure in the local economy in Scotland.

Note: Fee figures are based on an estimate by Colleges Scotland, based on fee data from colleges. Actual Scottish Funding Council (SFC) figures for 2014/15 are not yet available. Current projections indicate a further and significant reduction in International student numbers and subsequent income.

London Calling: International Students' contribution to Britain's economic growth, London First and PwC Legal LLP, 2015

London First is an organisation representing London businesses. In their analysis they use data from several sources, including the Higher Education Statistics Agency and a

⁵ https://www.hesa.ac.uk/pr213#non-EU_fees

survey of international students from one quarter of London's universities, representative of the range of institutions in the capital.

The Report shows that international students in the capital used £540 million of public services such as the NHS per annum, but brought in over £2.8 billion per annum to UK GDP to the economy through tuition fees (£1.32 billion), subsistence spending (1.36 billion) and hosting family and friends coming to visit (£121 million). This is a net contribution of £2.3 billion per annum, which is around £34,122 per student, on average.

The Economic Costs and Benefits of International Students, A Report for the University of Sheffield, Oxford Economics, January 2013

The Report quantifies the economic costs and benefits of international students at Sheffield-based universities to the local economy at both the regional (Yorkshire & the Humber) and sub-regional (Sheffield) levels. Figures are presented based on data for the 2012/13 academic year. The Report records that during the 2012/13 academic year, a total of 8,222 international students studied at Sheffield-based universities.

Findings:

- Modelling indicated that international students would make a net total contribution to Sheffield's GDP in 2012/13 of £120.3 million. At the wider regional level (Yorkshire & the Humber), this figure rises to £136.8 million.
- Of this total net figure, £97.9 million will have been generated directly, primarily via fee income and international student subsistence spending. Of this £97.9 million figure, the benefits are recorded as considerably greater (£120 million) than their costs (£22.1 million).
- Further net benefits are generated via the indirect (activity supported as a result of local supply-chain purposes) and induced (activity supported by the spending of those employed as a result of the direct and indirect impacts) impacts contributing £22.4 million to Sheffield's GDP net of costs (£34.3 million at the regional level).

SECTION TWO: FINANCIAL COST TO BUSINESS

The State of Engineering, Engineering UK, 2015

Engineering UK is a not for profit organisation, which works in partnership with the engineering community to promote the vital role of engineers and engineering to society.

The Report found that failure to meet UK engineering workforce requirements damages individual prosperity for employees, economic sustainability of engineering employers and social and economic wellbeing for the UK Government. Meeting the forecasted demand for 257,000 new vacancies in engineering enterprises from 2022 will generate an additional £27 billion per year to the UK economy in 2022.

The Skills Deficit: Consequences & Opportunities for UK infrastructure, Atkins, 2015

Atkins are a design, engineering and project management consultancy. The study, which was carried out for Atkins by Remark Research and Marketing, compiles the views of more than 40 experts from infrastructure owners, engineering consultancies and contractors, academia and industry bodies, with a particular focus on how they believe the UK's predicted lack of skills could impact on the delivery of the government's National Infrastructure Plan. The full report focuses across four key sectors: Water, Energy, Digital Infrastructure and Transport.

The report predicts that consequences of a skills shortage for the Energy sector could lead to a number of challenges for the future development of upcoming UK infrastructure projects. Costs linked to the skills shortage within the sector could double by 2020 to over £17 million. The report highlights a number of consequences including increased costs; delays to projects; loss of intellectual property and skills; damage to the UK economy; and power outages.

SECTION THREE: ANECDOTAL REPORTS OF FINANCIAL COST

ScotlandIS report that:

- The cost to business is in lost opportunities through an inability to fill staff vacancies and the resulting inability to take on additional work.
- Members highlight that the lack of new skilled people is holding back growth, however, unfortunately they do not have any information that qualifies that.
- As a knowledge industry, people are the industry's 'raw material' and if there is a shortage of raw material, then businesses cannot create sufficient output to meet market demand.
- It is estimated that the loss of business opportunities is probably costing the sector at least 10% in sales growth, which would be worth some £500 million to the Scottish economy.

The **Institute of Directors** (IoD) report that:

- The number of individuals being granted a Tier 2 visa is now receding from when the Tier 2 cap was reached last year. IoD are expecting the next figures to show a reduction.
- IoD are about to start obtaining the evidence to support their view on Tier 2 in general.



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