Too much of a good thing? International students and the financial stability of English higher education

BRIEFING PAPER

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By Zeki Dolen, Events and Communications Intern

International students benefit the UK, but the speed of the increase in their numbers since 2019 has diluted these benefits and created pressures on student housing. This briefing lays out how to manage their numbers to reduce these pressures without creating a financial stability risk for the higher education sector.

KEY POINTS

- International student numbers grew 37% following the student visa reforms of 2019, from 496,110 in 2018/19 to 679,970 in 2021/22.
- Post-2019 international student flows have had different characteristics:
  - Growth has been driven by students from India, Nigeria and Pakistan, while Chinese and EU student numbers have stagnated and fallen.
  - The majority of the growth has been in students studying one-year master's degrees.
  - New international students are much more likely to bring dependants.
- Although international students bring economic and soft power benefits, the overexpansion of international student numbers has diluted these benefits while creating pressures on the student housing market.
- And while international student fees are a vital source of income for universities, universities have become overreliant on this fundamentally insecure income stream, creating a financial sustainability risk.
- To control international student numbers without creating a financial crisis in higher education, the government needs to accompany visa reform with financial support for universities.

RECOMMENDATIONS

- Limit the increase of international student numbers to ensure sustainable growth.
- Compensate universities for lost income from international students with an increased teaching grant.
- Update the International Education Strategy with new targets for diversification of international student flows.
- Reform student and graduate visas to maintain the UK's attractiveness to international students.

INTRODUCTION

It is perhaps little surprise that, in its efforts to cut headline immigration figures, the government's attention (and that of the media) has shifted towards international students.[1] After all, according to the Migration Advisory Committee (MAC), the increased inflow of international students 'is the largest single factor accounting for the rise in net migration' since 2019.[2]

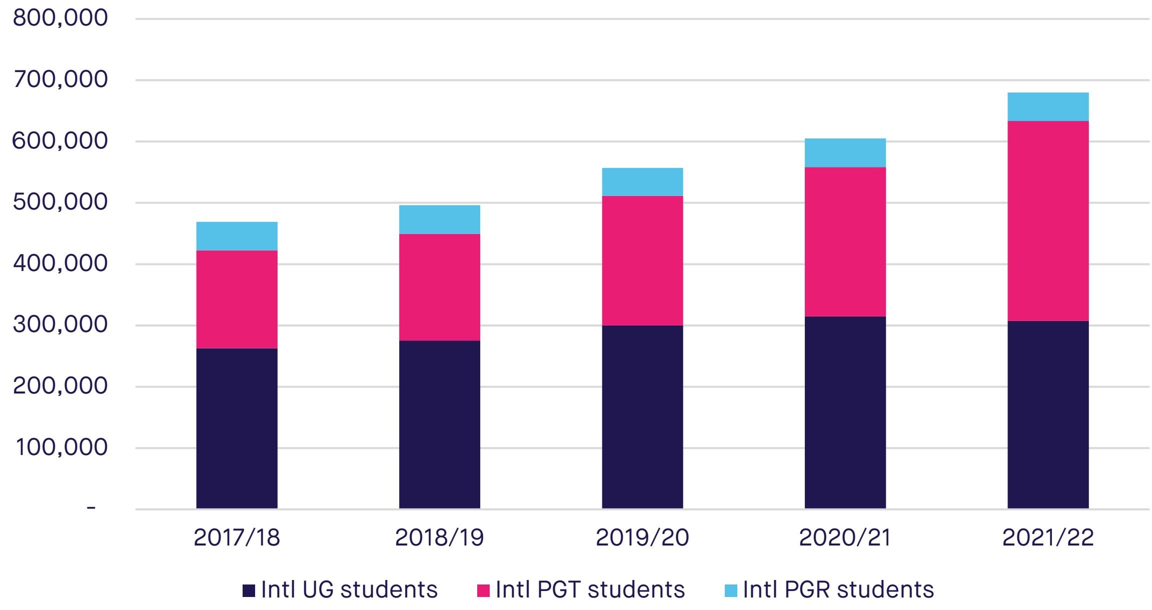
To an extent, this attention has been warranted. Although international students clearly contribute to the UK fiscally, economically and by augmenting its soft power, the scale of the recent increase in international student numbers has watered down the economic benefits of international students and created pressures on student housing. Recent policy changes such as limiting the right to bring dependants to postgraduate research students and toughening compliance standards for universities sponsoring student visas are likely to help address some of these pressures. But these changes indicate that the government views international student policy primarily through the lens of cutting net migration. This is a mistake, given the essential role international students play in the higher education funding model and their wider benefits for the UK. Freezing fees for undergraduate home students has pushed universities to admit ever more international students to make up for the shortfall on funding the teaching of home students, but this has exposed universities to a growing financial stability risk. Cutting international student migration through restrictions on dependants without reforming the higher education sector's funding model means the government is on course to turn this financial stability risk into a reality, potentially resulting in job losses and damaging students' educational experience.

BACKGROUND

Today's international student policy landscape has its roots in 2019. The number of international students in the UK had grown only slowly following the abolition of the post-study work visa in 2012, from 424,815 in 2012/13 to 496,110 in 2018/19, resulting in Australia overtaking the UK's market share of international students in 2019.[3] That year, however, the government issued a new International Education Strategy with the ambition to increase international student numbers to 600,000 and international education exports to £35 billion by 2030.[4] This target was accompanied by the announcement of a new graduate visa, allowing international students to stay in the UK for two years after successfully completing an undergraduate or master's degree and three years after a doctorate.[5]

The ambition to increase the number of international students studying in the UK was wildly successful, and the 600,000 target was achieved nine years ahead of time in 2020/21.[6] Numbers continued to increase dramatically in 2021/22 to 679,970 (a 37% increase in just three years), and Home Office student visa issuances indicate that this strong growth continued into 2022/23.[7] In providing a route to post-study work and addressing one of the main concerns of international students who chose not to study in the UK before 2019,[8] the graduate visa was a major driver of this growth.[9]

Figure 1: Growth in international student numbers since 2017/18, broken down by level of study



Source: HESA

These post-2019 international student flows have had different characteristics. The number of international students from EU countries has collapsed since the change in fee and visa status following Brexit, and numbers from China have stagnated.[10] The growth in numbers has instead been driven by flows from India, Nigeria and Pakistan, with India overtaking China as the largest source of international postgraduate taught (PGT) students in 2022/23.[11] The growth in numbers has also overwhelmingly been at the PGT level, [12] and whereas students from China and the EU are more likely to study at Russell Group universities, new entrants from India and Nigeria tend to study at post-1992 universities.[13] Finally, new international students are much more likely to bring dependants with them, likely due to the Graduate visa's post-study work offer making postgraduate study in the UK attractive for older students. Under the student and graduate visas, international postgraduate students are entitled to apply for visas for their spouses and children.[14] Since 2019 the number of student dependants has risen from negligible levels to 148,000 by 2022, accounting for 24% of all student visas.[15] Students from Nigeria and India are the most likely to bring dependants, accounting for 54% and 23% of all student visa holders respectively, compared to less than 1% for Chinese student visa holders.[16]

This last trend has drawn the government's attention and prompted a change in policy. In May 2023, the government announced that only postgraduate research students would be permitted to bring dependants on student visas and that students would be prevented from switching to a work visa while studying.[17] This was followed in December 2023 by the announcement of a review of the graduate route by the MAC.[18] Although the MAC's review recommended keeping the graduate route in its current form,[19] its identification of some concerns relating to abuse of the route by international student recruitment agents has led the government to announce further regulations on international student recruitment, including tougher compliance standards for universities sponsoring student visas, reviewing English language requirements and requiring universities to sign up to a framework for recruitment agents.[20] Early indications are that the changes in May have led to a dramatic decline in international student numbers. Data shared with the MAC by Enroly, a web platform used by international students to enrol to their universities, show that the number of deposits paid by international students due to begin their courses in September 2024 at a sample of 24 universities had declined by 57% as of May 2024 when compared to the previous cohort.[21] The decline in deposits was considerably steeper for postgraduate taught courses (63%) than undergraduate (29%) or postgraduate research (16%) courses, indicating that it is likely a result of the changes to rules surrounding dependants.[22] While it is possible that this sample is not representative of the sector as a whole, provisional data showing a 12% year-on-year decline in student visa applications for main applicants in the first four months of the year support the picture of decline, though the true magnitude will only become apparent in Q3.[23]

THE BENEFITS OF INTERNATIONAL STUDENTS

Given the way political discussion around international students has shifted, it would be reasonable to wonder why the government sought to *increase* international student numbers to 600,000 as recently as 2019. But this was for good reason: international students make valuable contributions to the UK across a range of policy areas.

Perhaps the most obvious is the contribution international students make to the UK economy. International students contribute to education exports worth £25.6 billion in 2020, on track to meet the target of £35 billion by 2030.[24] Yet this is only one aspect of their economic contribution. In a 2023 report, London Economics estimated that the economic benefit of the 2021/22 cohort of international students would be £41.9 billion, comprised of tuition fees, living cost spending and spending due to family and friends' visits.[25] Importantly, these benefits are spread out across the country, including in areas that the government has been committed to levelling up. It is worth taking these estimates with a pinch of salt given that the study was commissioned by organisations with a vested interest in lobbying for international students in the form of Universities UK and Kaplan International Pathways. But the £41.9 billion figure may be conservative, as it does not consider taxes paid by international students and their dependants while working alongside their studies.[26]

A second London Economics report, also commissioned by the Higher Education Policy Institute and Kaplan International Pathways, indicates that international students make a net fiscal contribution after they graduate, in addition to their economic contribution over the period of their studies. Whereas main Graduate visa holders are estimated to have made a net contribution of £588 million in 2022/23, they (and their dependants) are estimated to have cost the taxpayer £517 million, leaving a net benefit of £70 million.[27] This positive finding is in line with expectations, as Graduate visa holders have no recourse to public funds and tend to be younger (with a median age of 26) and therefore less likely to need healthcare.[28] It is also in line with previous research on the net fiscal contributions of immigrants showing that

20-year old immigrants with no children only need to earn just over £10,000 a year to make a net fiscal contribution.[29] This finding is once again likely to be an underestimate, as it considers the fiscal costs of dependants while assuming that no dependants of Graduate visa holders were in work due to a lack of data.[30] Given the MAC's previous concerns that the Graduate visa could attract international students and their dependants to the UK for post-study work rather than education, the true fiscal contributions of international students could be considerably higher.[31]

Moreover, the MAC's review of the graduate route has found that international graduates have, on average, similar labour market outcomes to domestic students. It is clear that the majority of main graduate visa holders work (though calculating the exact proportion is challenging), and 63% of those who do work are employed within one month of beginning their visa.[32] Graduate visa holders earn more over the course of their time on the visa, and the median monthly income of Graduate visa holders in work in the last three months of their first year on the visa is equivalent to an annual salary of £24,240, not far below the median salary of domestic graduates in paid employment 15 months after graduation of £26,000.[33] Graduate visa holders who switch to the Skilled Worker visa are also roughly as likely to be in graduate-level jobs as domestic graduates (69% vs 75%), while Graduate visa holders in work are more likely than domestic graduates in work to be earning over £2,500, with 38% earning above this threshold by the final month of their first year on the visa.[34]

International students' contributions also go beyond the economic. As well as cultural and social contributions that are harder to quantify, international students enhance the UK's soft power – the influence it has on other countries. A 2023 report for the British Council found that Chinese students who had studied in the UK were more likely to find the UK attractive and trust its institutions, government and people than those who had not.[35] This is significant, because international students who study in the UK often end up in influential positions in their home countries – as the Higher Education Policy Institute's Soft-Power Index shows, 58 world leaders in 2023 were once educated in the UK, second only to the US.[36]

The government's recent moves, therefore, are likely to harm the UK's economy and international influence. But they will also damage its universities. International students play a key role in financing higher education in England because there is no cap on the fees universities can charge them, unlike for domestic students.[37] This has become particularly salient since tuition fees for undergraduate home students were frozen at £9,250 in 2017.[38] Five years of inflation has eroded this sum to two-thirds of its original value, meaning universities now make a loss on teaching home students, and the Russell Group has argued that this deficit could rise to £4,000 by 2024/25.[39] International student fees also play a role in cross-subsidising the even greater shortfall in researching funding.[40]

The inadequacy of university funding has produced financial vulnerabilities within the sector that the government's change in policy could exacerbate. 93 providers (35%) reported deficits in 2022-23, with this figure projected to rise to 108 providers (40%) in 2023-24, of which 42 will have posted three consecutive years of deficits.[41] Moreover, 27 providers (10%) reported net liquidity of under 30 days in 2022-23, rising to 29 in 2023-24 with 14 reporting low net liquidity for three consecutive years, and 10 providers reported negative net liquidity in 2022-23.[42] While the Office for Students (OfS) has proved capable of resolving the exits of smaller providers in the past, there is no correlation between the size of a university and its financial security. Six large research or teaching universities are forecast to post three consecutive years of budget deficits by 2024-25 and two are forecast to post three consecutive years of net liquidity under 30 days by 2026-27.[43]

Given these valuable contributions, it is clear that any changes to international student policy need to be evaluated not just based on their impact on numbers, which the government has trumpeted as evidence of the success of its restrictions on dependants, but in a more holistic way.[44] Viewed in this light, by making the UK a less attractive destination for international students, the policy changes since May 2023 have the potential to damage the UK's economy, international standing and the financial position of its universities.

THE PROBLEMS OF OVEREXPANSION AND OVERRELIANCE

Yet although the decision to change visa policy without consideration for the wider implications, particularly on university financing, is reckless, this is not to say that the status quo is tenable. On the contrary, universities' financial constraints have pushed them to expand international student numbers at an unsustainable pace. This overexpansion in turn has resulted in an overreliance on international student fees as a source of income, posing problems for the sustainability of the sector's funding model.

Overexpansion

With regard to overexpansion, the rate at which universities have accepted more international students to compensate for the freeze in domestic tuition fees has undermined their benefits and created capacity issues that harm the student experience. While international students studying in the UK are beneficial *in the aggregate*, there is some evidence that universities' desperation to increase international student numbers to make up for shortfalls in funding for teaching domestic students has led them to accept students whose contribution to the UK is likely to be smaller. The aforementioned London Economics (2023) report suggests that this is true of students during their period of studies. While the £41.9 billion economic contribution made by the 2021/22 cohort of international students to the UK economy represents a 34% increase on 2018/19, the fact that the number of international students grew by 40% over the same period means that the per-student benefit fell from £115,000 to £110,000.[45] Moreover, the aggregate fiscal costs of the same cohort of international students rose by 43% due to the growth in the number of dependants.[46]

Changes in the demographic profile of Graduate visa holders and their dependants between the first cohort in 2021 and the introduction of the changes announced in May 2023 may also have diluted international students' post-graduation fiscal contribution. The proportion of main graduate visa applicants aged over 25 grew by 15 percentage points to 54% between 2021 and 2023, while the proportion dependants who are children has grown by 13 percentage points to 36% over the same period.[47] This means that the fiscal costs of later cohorts of graduate visa holders are likely to have been higher, given that older workers and, in particular, children are more likely to make use of public services.

In addition, while international students who stay in the UK after graduating have similar labour market outcomes to domestic graduates on average, a substantial proportion of them are on lower incomes. Graduate visa holders in work are more likely than domestic graduates to be earning less than £2,000 even by the end of their first year on the visa than domestic graduates, and those who switch to Skilled Worker visas from the Graduate (22%) or Student (51%) visas are considerably more likely to work in caring, leisure or other service occupations than domestic graduates (6%).[48] The MAC is right to point out that this is more an indication of a problem with the care sector, and these international students are making a contribution by addressing the UK's shortage of care workers, but it nonetheless means that the net fiscal these graduates make to the UK after their studies end is likely to be more limited.[49] There is also some evidence that this overexpansion has attracted some international students to the UK primarily for work, rather than for education. The MAC has in the past expressed concern that the Graduate visa allowing international students to work in the UK for two years post-graduation has meant that 'the cost-benefit of enrolling in a degree has changed substantially' for international students hoping that working in the UK would allow them to more than recoup the costs of their study.[50] Although its review of the graduate route found no evidence of abuse of the Graduate route, the MAC did find some evidence that some educational agents sell the UK 'as an immigration destination as opposed to an education destination'.[51] The MAC's finding that 66% of all Graduate visas have been issued to non-Russell Group postgraduate students, and in particular that the growth has been strongest at lower-ranked universities and those in the bottom two tuition fee quartiles, tends to support this suggestion.[52]

This dilution of the economic contributions of international students makes it more likely that these contributions are outweighed by the pressures that the rate of international student expansion has put on universities' capacity to accommodate them, giving rise to concerns that international students are displacing UK students. Many of these claims have been sensationalist, and liberal commentators from inside and outside the sector are right to point out that, rather than international students displacing home students, the fees paid by international students are what funds the teaching of so many home students in the first place.[53] There is certainly no evidence that rising international student numbers are associated with declining home student numbers at the undergraduate degree level, as these proportions have remained broadly static at roughly 83% and 17% since 2010.[54]

However, as Jim Dickinson has rightly pointed out, there are inevitably physical limits to the capacity of universities to effectively accommodate and teach students.[55] As long as investments are made to keep expanding these physical limits, international students need not displace home students. But, as the OfS's 2023 financial sustainability report identified, many universities deferred capital investments to maintain their reserves during the pandemic and pushed a substantial increase in capital expenditure that had been planned for 2021/22 further back to 2022/23, at the same time as they were dramatically increasing the number of international PGT students they admitted. [56] Moreover, the 2024 edition of the OfS's financial sustainability report shows that, although capital expenditure did grow by 14% in 2022/23, this was 27% lower than forecast in the 2023 report.[57] A large increase in capital expenditure is now expected for 2023/24, but the OfS has questioned whether this will in fact materialise given continued financial uncertainty.[58] Capital expenditure is therefore still being deferred, despite the need to accommodate international student numbers that have grown rapidly.

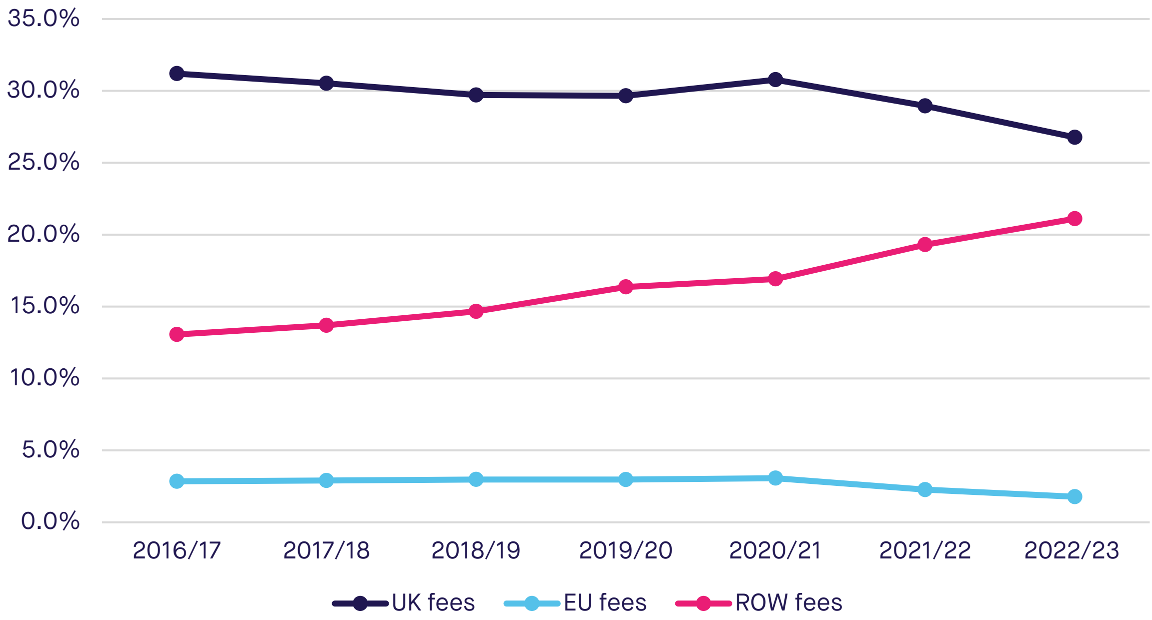
This has contributed to capacity constraints that have harmed the experience of all students, most obviously in the case of housing. The same period since 2020 that has seen a dramatic expansion in international student numbers has seen a decline in student housing provided by local landlords and in the number of new beds in purpose-built student accommodation (PBSA), from an average of 30,000 a year between 2010-20 to just 8,760 in 2023/24.[59] The overwhelming majority (85%) of the decline in growth over the past five years has come from the private sector.[60] This has resulted in significant shortages in a number of cities including Brighton, Manchester and Glasgow, and rents in the private sector increasing by 19% between 2021/22 and 2023/24.[61] Worse still, it has left some students unable to find any accommodation in the cities in which they study, having to commute long distances with negative implications for their studies and socialisation with coursemates.[62] In some cases, universities have responded to this issue and their funding difficulties by limiting their intakes, leaving them with little choice but to increase the proportion of international students relative to domestic students, as the University of Nottingham has admitted in its latest accounts.[63]

Not only, then, has overexpansion overwhelmed universities' ability to effectively accommodate their students, damaging the student experience; there is also some evidence that, in the short-term, on a small scale, it may have resulted in international students displacing home students.

Overreliance

With regard to overreliance, universities have responded to the freeze in domestic tuition fees by relying increasingly on income from international student fees. While this is in the short term a rational response to government-imposed financial constraints, in the long term, it leaves universities' financial stability exposed to factors outside their control.

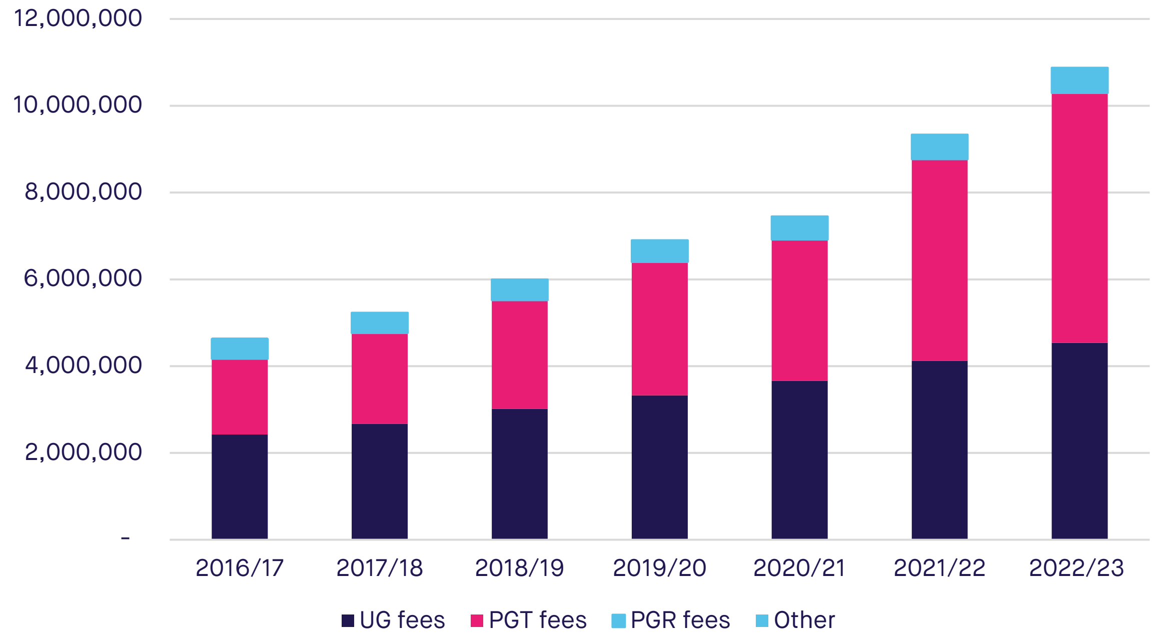
Figure 2: Fees of students from the UK, EU and the rest of the world as a proportion of UK universities' income



Source: HESA and SMF analysis. Note that the figures for 2022/23 exclude eight universities whose financial data had not been finalised by the deadline for publication.

HESA data show that the proportion of UK universities' income that comes from international student fees has risen from 17.6% in 2018/19 to 22.9% in 2022/23, driven by a dramatic increase in non-EU international fees from 14.7% to 21.1% over the same period.[64] The OfS has identified this as a key systemic financial stability risk for the sector for two years running,[65] but the problem is even more serious than the headline numbers suggest because of the different characteristics of the international student flows universities have pursued. The growth in income from international student fees has largely come from PGT students, whose degrees typically last for one year, compared to three or four for undergraduate degrees. This means that PGT students are relatively more expensive for universities to procure, and that income from PGT fees can be more volatile as it is guaranteed for a shorter period of time, making it harder for universities to budget appropriately.[66]

Figure 3: UK universities' fee income from non-EU international students broken down by level of study (£000s)



Source: HESA. Note that the figures for 2022/23 exclude eight universities whose financial data had not been finalised by the deadline for publication.

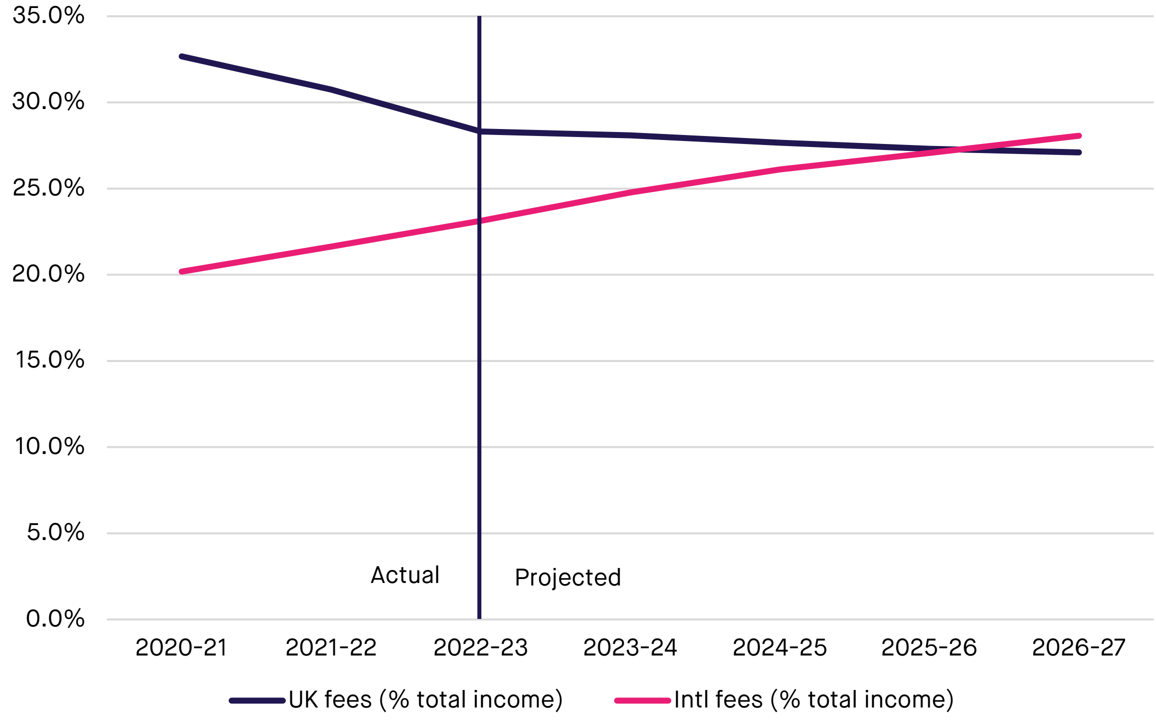
The composition of international student flows also risks creating volatility in fee income, as international students increasingly come from a small number of countries. Although the sector has reduced its reliance on students from China, this has been accompanied by a growing reliance on students from the top three countries, rising from 41.3% of all international students to 47.4% between 2020-21 and 2021-22.[67] At provider level the problem is worse, with the three largest nationalities of postgraduate international students making up 74% of the total number of postgraduate international students at UK universities in the top 200 globally and 72% of those outside the top 200, and a growing proportion of universities receiving at least 50% of their PGT income from students from one or two countries.[68] Indeed, as much of the growth in international students from India and Nigeria has been at post-1992 universities, many Russell Group universities remain dependent on income from Chinese students.[69]

This is problematic for financial stability because it increases universities' exposure to developments in those countries. Concerns have been strongest in relation to China due to fears that a potential geopolitical confrontation with the West could lead to a dramatic disengagement between the two spheres.[70] But domestic economic developments, such as currency devaluations, can also cause international student flows to decline – indeed, the devaluation of the naira against the pound may have contributed to the September 2023 drop in student visa applications from Nigeria.[71] Local media stories presenting the UK as hostile towards immigrants can also have a depressing effect on applications, as may have been the case with students from India in the 2010s.[72]

Finally, as Janet Ilieva has pointed out, diversification in student origins can obscure changes in the socioeconomic profile of international students that make them a less reliable source of income.[73] Students from India and Nigeria are more likely to fund their studies through loans than Chinese students, who tend to rely more on personal and family income and savings.[74] Hence, Indian and Nigerian students are more likely to experience financial difficulties and drop out, making fee shortfalls more likely, and are more sensitive to tuition fee increases, making it less of a guarantee that the present growth in numbers will continue as universities charge ever more exorbitant international student fees.[75]

Yet in spite of these vulnerabilities, the sector and the government have failed to act to reduce the overreliance on international student fees. Although the OfS identified international student fees as a potential systemic risk in 2023, it nonetheless concluded that the sector in aggregate was in sound financial health (a view shared in May 2023 by Robert Halfon, then Minister for Skills, Apprenticeships and Higher Education).[76] Universities have also expressed concern,[77] yet they have had little choice but to continue to pursue international student revenues. Financial forecasts submitted to the OfS reveal that the English HE sector's reliance on international student fees as a source of income is due to increase further to 28.1%by 2026/27.[78] These forecasts depend on a continuation of the high rate of increase in international student numbers in recent years as well as an expectation that course fees will continue to increase, both of which are assumptions that the OfS considers 'significantly optimistic'.[79]

Figure 4: Projected proportion of English universities' income from UK and international fees



Source: OfS Annual Financial Return data and SMF analysis. Data from 2021-22 to 2026-27 are taken from the 2024 Financial Sustainability report; data for 2020-21 are taken from the 2023 Financial Sustainability report

The ever-increasing reliance of the sector in the face of growing warnings means that, if and when the necessary international student inflows fail to materialise, the hit to universities' financial stability could be severe. Modelling from the OfS and PwC suggests that stagnation – let alone a sharp decline – in international student numbers could seriously damage the finances of the English higher education sector.[80] No further growth in (UK and international) student numbers could create a £3.4 billion income shortfall by 2026-27, which would tip 176 providers (64%) into deficit and 107 (40%) into low year end liquidity.[81] A more drastic scenario where there was no growth in UK student recruitment, but international recruitment fell 61% by 2026-27, would result in a £9.7 billion shortfall, pushing 226 providers (84%) into deficit and 196 (73%) into low liquidity.[82] Indeed, recent evidence suggests that the costs of this overreliance are already being felt by many institutions. As the impact of the government's decision to prevent postgraduate taught students from bringing dependants with them on international student admissions is becoming clear, growing numbers of universities are being forced into retrenchment programmes resulting in job losses for academics and staff and potential harms to students' educational experience, as course offerings are reduced.[83]

RECOMMENDATIONS

Given the real problems that overexpansion of international student numbers has created, the policies implemented by the government since May 2023 are not entirely without merit. Limiting the right to bring dependants to postgraduate research students is already reversing the rise in dependants that has contributed to the dilution of the economic benefits of international students, while the measures announced in May 2024 – such as stricter monitoring of course completion rates for international students – could help ensure that those international students who come to the UK do so for the purposes of study.

But it is clear that this response has been poorly thought out, narrowly focusing on cutting headline migration figures with little consideration of the other policy areas that international student migration touches on. The government's decision to change the rules around postgraduate taught students bringing dependants does not appear to have been based on a detailed assessment of the likely impact of the changes on international student numbers;[84] in light of the most recent preliminary figures, that impact now looks substantial.[85] Nor has the government put any policies in place to mitigate the fact that it appears to be knocking universities' last financial support out from under them, despite the dramatic impact this could have on the sector's finances. There may be a case for wide-ranging reform of the English higher education sector involving university mergers, of the kind that many universities are currently exploring to cut costs.[86] But any such reform attempt should take place after careful consideration of the costs and benefits, not as a result of a sector-wide financial crisis.

Instead, the government should pay heed to the MAC's warning that it 'needs to consider the total impact of a policy change rather than simply its effect on net migration'.[87] A more strategically coherent policy mix would aim to prevent a recurrence of the overexpansion that has characterised the past five years at the same time as addressing universities' overreliance on international student fees, all while maintaining the UK's status as one of the world's top destinations for international students. This report sets out four recommendations that, taken together, would go some way towards achieving this aim.

Recommendation 1: Cap the growth of international student numbers

Despite the financial stability risks, universities' pursuit of international student fees is a rational response to the growing funding shortfalls they face on domestic teaching and research. The absence of a cap on international student numbers or fees means increasing international student numbers is the only reliable source of additional funds they have left. But what may be a rational response to short-term financial constraints comes at a substantial cost to resilience. Moreover, evidence from the Covid-19 pandemic, when high-tariff universities significantly increased their intakes, leading lower-tariff universities who were previously dependent on admitting students through clearing to struggle, suggests that overexpansion is not just a response to funding pressures, but rather a more general tendency.

To prevent the costs of overexpansion spiralling out of control and avoid a future recurrence of the problem, then, the government should impose a stricter cap on the rate of growth of international student numbers. At present, universities can request an annual increase in student visa allocations of up to 50%,[88] but this has facilitated the rapid overexpansion of international student numbers. The cap should therefore be reduced to 20%, with this limit reviewed on a periodic basis.

Moreover, although UK Visas and Immigration (UKVI) is obliged to consider the capacity of the university requesting the increase in their student visa allocation and its staff-to-student ratio, the evidence of accommodation shortages forcing students to live far from their places of study indicates that it has adopted a fairly lax approach.[89] This may be because UKVI lacks the expertise to independently assess the local availability of housing, but recent evidence indicates that it is already taking a tougher approach to visa approvals.[90]

UKVI should take this tougher line more consistently going forwards. The government has already announced in its response to the MAC review of the graduate route that it will take a stricter line on challenging institutions sponsoring student visas whose international students have low course completion rates. This is welcome, as it would lessen the risk that universities are seeking to sell immigration under the guise of education, while also ensuring that these institutions are not failing their international students and allowing them to fall through the cracks. But it should accompany this with measures to evaluate providers' capacity to accommodate the international students they are seeking to admit more rigorously. To do this, UKVI should work more closely with organisations such as Unipol and Cushman & Wakefield that report on the state of the PBSA market.[91] Using the information these organisations collect, it should create a metric to determine where there are student housing shortages – for example, if PBSA room prices have increased by double digit percentages in the past year and student number growth has exceeded the growth in PBSA beds over the past three years. Where student housing shortages are identified, the onus should be on universities to demonstrate that their requested student visa allocation increase would not exacerbate the shortage. This would require universities to improve their understanding of local private rental markets, as a recent Universities UK good practice guide has recommended,[92] and may encourage them to cooperate with their local authorities to ensure that housing development in local areas accounts for increased demand from rising student numbers, as the MAC review of the Graduate route calls for.[93] If a university fails to demonstrate that their local private rental market can absorb the increase in demand, UKVI should reject its request for a student visa allocation increase.

Managing international student numbers in this way would be preferable to the government's present approach of reducing international student numbers by making the UK a less attractive destination. It leaves open the possibility of increasing the number of international students at UK universities (and hence their economic and soft power contributions), while avoiding a reckless rate of increase and enabling universities to be more selective in the international applicants they accept. This greater selectiveness could help to ensure that the new international students accepted by universities are more likely to make a positive economic contribution during and after their studies, and go some way towards addressing the fact that non-EU international students are considerably more likely to receive 2.2 or 3rd class degrees than home or EU students.[94]

Recommendation 2: Provide a long-term teaching grant tied to inflation to compensate universities for lost income from international students

Capping the growth of international student numbers is necessary to maintain the financial sustainability of higher education, but its immediate impact on institutions' finances would be similarly harmful to the government's visa changes. To avoid precipitating a systemic funding crisis, it is therefore necessary to change the funding system that incentivises universities to increase their reliance on international student fees for funding, and that requires addressing the funding shortfall for domestic teaching.

The government should commit to increasing the direct grant funding provided to universities to counteract the effect of the decline in the unit of resource for home students. At present, this amounts to around £1,150 per student.[95] This grant should be increased such that it partially offsets the decline in the unit of resource for each home student since 2017. Restoring the unit of resource to 2017 levels in full would be overly generous; this was the highest level the unit of resource had reached since at least the mid-1990s,[96] following years of resource increases since 2011/12 that exceeded wider public spending and GDP growth and left the UK's universities with among the highest funding levels in the world.[97] It should therefore be restored to 2020/21 levels in real terms.

Although this represents a decline on 2017/18 funding levels, it is more in line with the average since the mid-2000s. OfS analysis indicates that this level of funding covered 98% of the costs of teaching home students, meaning the surplus from international student fees would play a much smaller role in cross-subsidising teaching and could be directed primarily at the shortfall on research funding.[98] This would also still leave the UK higher education sector in good stead relative to its international peers, as the UK had the third highest tertiary education spending of OECD countries in 2020.[99] Any future depreciation of the real value of the student loan for domestic students should also be counteracted by an equivalent increase in the direct grant level.

Addressing the domestic teaching funding shortfall would end the imperative universities feel to grow international student numbers to remain financially viable and reduce the likelihood that universities will increase their reliance on international students as a source of funding in such a reckless manner.

Recommendation 3: Update the International Education Strategy with new targets for diversification

The export value and international student ambitions set out in the 2019 International Education Strategy were welcome and brought the UK in line with its competitors in the international student market. But the early achievement of the international student numbers ambition should not be taken as encouragement to revise it upwards. Instead, the next update to the International Education Strategy should set out two new ambitions in addition to those relating to export value and headline numbers.

The first ambition should encourage universities to diversify their international student intakes, reducing the proportion of their international student income that comes from one or two countries. This would build on the 2021 update to the International Education strategy, which identified a need to diversify international student recruitment and set out a number of priority markets for the International Education Champion, including India, Indonesia and Nigeria, in its Action 1.[100] But where this action and progress updates on it focuses on the activities undertaken by the International Education Champion,[101] the new ambition should set out measurable targets for diversification at the level of individual universities, to increase their resilience to changes in international student flows.

The second target should relate to the level of study, encouraging universities to allocate more of their student visas to undergraduate and research students. These students provide a more sustainable source of funding for universities as their fees are guaranteed for a longer period than postgraduate taught students, whose courses typically last one year. Focusing on attracting postgraduate research students would also have the added benefit of strengthening the UK’s research pipeline.

Recommendation 4: Reform visas to make the UK more attractive to international students

The government’s decision to ask the MAC to review the Graduate visa has led to much discussion over whether it is open to abuse. Think tanks on the right of the political spectrum have called for its abolition, as well as restricting the right to issue student visas to high-tariff universities.[102] The latter suggestion is misguided, not least because the undergraduate entry tariff imposed by a university is a poor guide to its quality for postgraduate study (let alone the quality of applicants to that university).

But scrapping the Graduate route would also be a mistake. In its 2023 Annual Report, the MAC made the case that the government needed to decide whether the purpose of the Graduate route was to attract international students to UK universities or to attract high-skilled workers who would go on to graduate jobs and make an economic contribution to the UK.[103] The Graduate route should be retained in its current form as it does a good job of fulfilling both aims. On the one hand, there is clear evidence that the Graduate visa plays a key role in making the UK more attractive to international students looking to apply to the UK. For example, a Home Office survey of Graduate visa holders has shown that, of the 73% who were aware of the Graduate route when applying to university, 34% would not have come if the route had not been available and 20% were unsure.[104] On the other, as outlined earlier, the MAC's review of the route shows that many of those attracted by the Graduate visa do go on to become higher earners, and the changes the government introduced in May 2023 are already reversing the increase in dependants that has contributed to the dilution of the economic benefits of international students.

The government's decision to follow the MAC's recommendation and retain the Graduate visa is, therefore, the correct one. But the current international environment towards student migration presents an opportunity for reform. The market for international students has typically been competitive, with countries like Australia, the US and Canada being keen to increase their market share. Yet recent years have seen rising hostility towards international students, with some major host countries looking to cut inflows. The Netherlands has announced measures including converting English-language courses into Dutch to cut international student numbers; Canada has announced a cap on student numbers to ease housing pressures; while Australia has cut back its visa offering to be closer in line with that of the UK.[105] The government should take this opportunity to solidify the UK's position as the second most attractive destination for international students in the world.

Surveys of international students indicate that the most common reasons for choosing to study in a particular country were the quality of teaching and the degree to which the host country was perceived as welcoming to international students.[106] While improving the quality of teaching at UK universities is beyond the scope of this paper,[107] the UK can appear more welcoming to international students by making small but significant tweaks to its visa regime. For example, the upfront application fee (including the Immigration Health Surcharge) for a two-year UK Graduate visa is £2,892, almost three times the cost of Australia's post-study work visa and almost 20 times that of Canada's.[108] Allowing applicants to spread this cost across multiple instalments would reduce the likelihood that the UK misses out on talented international applicants who cannot afford to pay this lump sum on top of often exorbitant course fees. Meanwhile, the recent substantial increase to the Skilled Worker visa salary threshold (even for new entrants) has made the prospect of securing a job that pays enough to allow international students to settle in the UK increasingly remote. The MAC have found that this could cut the number of Graduate visa holders from the cohort of international students ending their studies in 2023 switching to the Skilled Worker visa from 70,000 to around 26,000.[109] Reducing the new entrant salary threshold from £30,960 to £26,000, the estimated median salary for a domestic graduate in work 15 months after graduating, could reduce the likelihood that prospective international students hoping to settle are dissuaded from coming to the UK.

Taken together, these recommendations represent a change of direction compared to recent government policy. Whereas the changes to the dependant rules and Skilled Worker visa salary threshold aim to make the UK less attractive place for international students without doing anything to change the higher education funding model that incentivises universities to accept as many international students as possible, these changes would maintain the UK's attractiveness for international students while encouraging universities to be more selective in the international students they admit, increasing the likelihood that the international students admitted are of the highest quality.

CONCLUSION

The case of international student policy demonstrates the distortions that marketisation can produce in a sector where government policy inevitably retains a decisive influence. In an environment where the government caps domestic student fees below the cost of teaching them, universities are incentivised to pursue strategies that bring in short term revenue, despite exposing themselves to medium-term financial risks. It also shows the perils of a lack of strategic thinking from the government, as changes to immigration policy to achieve a reduction in the net migration target have had ramifications that could leave major universities in danger of bankruptcy. By contrast, where the government has aligned immigration policy and education policy, such as with the introduction of the graduate visa in the same year as the creation of the 600,000 international students by 2030 target, it has been remarkably successful. To achieve a financially healthier higher education sector while retaining the benefits that international students provide the UK, then, the government must take a more intentional and holistic approach to the issue of international students, considering the impacts of its policy on the higher education sector’s funding as well as on headline immigration figures, and provide the sector with more strategic direction.

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[105] Anne-Maree Walker, ‘Netherlands to Reduce International Student Numbers amid Ongoing Student Housing Crisis | Global Student Living’, *Global Student Living* (blog), 23 February 2024, https://gsl.news/2024/02/23/netherlands-to-reduce-international-student-numbers-amid-ongoing-student-housing-crisis/; Nadine Yousif and Brandon Drenon, ‘Canada Sets Two-Year Cap on Foreign Students’, *BBC News*, 22 January 2024, sec. US & Canada, https://www.bbc.com/news/world-us-canada-68059996; Seeta Bhardwa, ‘Australia Cuts Post-Study Work Visa by Two Years and Increases English Language Test Requirements’, *Times Higher Education (THE)*, 19 December 2023, https://www.timeshighereducation.com/student/news/australia-cuts-post-study-work-visa-two-years-and-increases-english-language-test-requirements; Migration Advisory Committee, ‘Rapid Review of the Graduate Route’, 41.

[106] Migration Advisory Committee, ‘Impact of International Students in the UK’, 35–36.

[107] For previous SMF work on the topic, see Aveek Bhattacharya, ‘Elusive Quality: How Should We Evaluate Higher Education?’ (Social Market Foundation, November 2020), https://www.smf.co.uk/publications/quality-in-he/.

[108] Migration Advisory Committee, ‘Rapid Review of the Graduate Route’, 40.

[109] Migration Advisory Committee, 59.