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THE FINANCIAL RETURNS TO ONSHORE AND OFFSHORE OVERSEAS STUDENTS AT BRITISH UNIVERSITIES

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KNOWLEDGE AND SKILLS FOR DEVELOPMENT

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**ABSTRACT**

This paper presents the key findings of a major survey of the financial returns to onshore and offshore overseas student provision at British universities. The two main conclusions of this survey are (i) the need to maximise the recruitment of high-value onshore overseas students is the main financial driving force for the internationalisation of education in the UK. The income generated from onshore overseas students is now critical for the institutional survival of a sizeable minority of UK universities; and (ii) the financial returns to offshore provision are generally quite low and, in overall terms, account for less than 4% of total tuition income. In the face of these low returns coupled with other non-financial factors, UK universities are increasingly rationalising/consolidating their offshore provision.

THE FINANCIAL RETURNS TO ONSHORE AND OFFSHORE OVERSEAS STUDENTS AT BRITISH UNIVERSITIES

1. **INTRODUCTION**

The internationalisation of UK higher education provision comprises two components, namely onshore overseas students who are directly enrolled on degree and other courses at British universities and, secondly, offshore overseas students who study entirely for UK university qualifications without ever setting foot in the UK.

A recent academic literature review of education internationalisation identified nearly 2,000 publications on this topic but not one focuses on the financial aspects of either onshore or offshore provision (Komutsky and Putty, 2015). This is very surprising given that it is generally accepted that one of the main motives for education internationalisation is income generation. In their widely cited 2007 article, Altbach and Knight state that ‘it is impossible to quantify the financial scope of academic internationalisation. But, the sums are large…’ (pp. 293).

This paper presents the key findings of a major survey of the financial returns to onshore and offshore education provision for overseas students studying for degrees at UK universities in 2015/16. It focuses in particular on the financial returns from the three main types of offshore provision, namely validated and franchised courses at overseas collaborative partners, overseas distance learning courses, and overseas branch campuses. Revenue data for onshore overseas students at each UK university are collected annually by the Higher Education Statistics Agency (HESA).

The discussion is organised as follows: Section 2 describes the survey methodology and other data sources. Section 3 provides some basic contextual information on the numbers of UK and overseas students in the UK. Sections 4 and 5 then present the main findings of the financial returns survey with respect to onshore and offshore overseas students respectively. Finally, section 6 draws together the main conclusions arising from the survey.

1. **SURVEY METHODOLOGY**

**2.1 Survey coverage and response rates**

A total of 130 universities in the United Kingdom (England, Northern Ireland, Scotland and Wales) were requested to provide basic information on the revenues and expenditures with respect to three main types of offshore provision. Initially, universities were requested to provide this information voluntarily. However,virtually all requests for information are now formally dealt by UK universities under the Freedom of Information Acts (FOIA) for England, Wales and Northern Ireland and Scotland.

The survey excluded the 35 ‘higher education providers’ with less than 5,000 offshore students in 2015/16 because they have very little offshore provision (a total between them of only 5,600 students in this year).

The overall survey response rate was 70%. A total of 36 of the 89 universities with overseas partnerships provided information on both expenditures and revenues with another 27 only able or prepared to furnish revenue data. Only 17 of the 86 universities with overseas distance learning students provided both revenue and expenditure data with another 20 furnishing only revenue figures. The corresponding figures for the 20 universities with overseas branch campuses are seven and four. Three universities did not respond at all. The sample of universities is broadly representative of the university population as a whole with respect to both onshore and offshore student enrolments.

Section 43(2) of the FOIA allows public bodies to withhold information if its disclosure is deemed to be prejudicial to their commercial interests. Thirty-one of the 113 survey universities (26.5%) issued refusal notices. Refusal rates were appreciably lower among Scottish universities.

The following extract from a refusal notice is typical of their reasoning in refusing to divulge this information.

‘Course provision is in an increasingly competitive environment and the University competes globally with other higher education institutions for students and the fees for these activities are unregulated. Provision of information on income and cost for each of these activities would allow those in possession of it to access the scale and profitability of each and henceforth would give competitors an advantage over the University if they were in possession of it’ (Warwick University).

With the increasing privatisation of core activities by universities in the UK, these universities can more easily invoke FOIA section 43(2) by refusing to provide ‘commercially sensitive’ information. In these circumstances, it is difficult to determine just how sensitive this information really is. Partial public sector privatisation may, therefore, be undermining the overall effectiveness of FOI legislation.

Another issue is that the majority of universities do not collect systematically expenditure data on offshore provision especially for distance learning courses. Nearly half of the survey universities refused to furnish this information because they estimated that it would take more than the maximum permitted hours to assemble. Somewhat perversely, therefore, the more inefficient a university is in collecting information about its activities, the more unlikely it is that this information will ever be forthcoming. Moreover, the inability to provide even basic expenditure information undermines the oft-repeated claim of universities that their offshore provision is an entirely separate commercial activity and does not fall under the FOIA. In practice, there is no separate financial accounting of offshore provision nor is the major cost element, faculty time spent managing overseas partnerships and supervising distance learning students, separately recorded at most universities.

**2.2. University classification**

For the purposes of this survey, UK universities are categorised as follows: ‘ancient’ universities established before the 19th century; ‘redbrick’ universities established between 1800 and 1945; ‘plate-glass’ universities established between 1945 and 1991; and ex-polytechnics and teacher training colleges established after 1991.

**2.3 Types of offshore provision**

The UK Higher Education Statistics Agency (HESA) classifies offshore provision into the following main categories:

* Overseas branch campus (OBC) set up and wholly owned by a UK university (‘reporting provider’) and, as such, ‘it is seen as no different from any other campus of the provider’.
* Distance, flexible or distributed learning (DL) which ‘generally do not require the student to attend particular classes or events at particular times and particular locations’.
* Overseas collaborative/franchised provision which denotes provision ‘leading to an award of an awarding provider delivered and/or assessed through an arrangement with an overseas partner organisation’.
* Students studying for an award of a UK university who are not registered with this university i.e. they are studying for an award at an overseas education/training institution that has been validated by the UK university. The main difference between franchised and validated degrees is that, for the latter type of degrees, the overseas partner does not follow the curriculum of the UK university.

In addition, overseas students can be enrolled on articulation/advanced standing courses at overseas partners which enable them to complete the remaining two three years of their UK university degree at the UK campus. These are commonly referred to as 1+2 and 2+2 provision models.

1. **BRITISH AND OVERSEAS STUDENTS AT UK UNIVERSITIES:**

**AN OVERVIEW**

**3.1 UK students**

Enrolments of UK domiciled students rose steadily from 1.6 million 1996 to a peak of 2.1 million during 2009-11 but then, largely as the result of the hike in UK annual tuition fees from £3,000 to £9,000 in 2011/12, fell back to 1.9 million in 2016/17 (a decline of 10.2%). Even so, the overall price elasticity of demand for university education is very low at 0.05 (a 200% fee increase divided by a 10% fall in enrolments after four years). Total UK student fee income has, therefore, increased almost threefold to around £17bn but, at the same time, government-funded teaching and research grants have been seriously reduced.[[1]](#footnote-1)

**3.2 Onshore overseas students**

Onshore overseas student enrolments at UK universities have more than doubled in the last 20 years – from 198,000 in 1996/7 to 458,000 in 2017/18. Slightly more than 80% of this increase is accounted for by non-EU overseas students. Despite concerted efforts to increase overseas student enrolments, the overall numbers of both EU and non-EU students have remained fairly constant since 2010/11. EU students pay the same tuition fees as UK students so demand for UK university education among European students has also been price inelastic. Tuition fees for both undergraduate and postgraduate non-EU onshore students have increased appreciably. With little likelihood of significant reductions in these high levels of tuition fees coupled with rapidly intensifying foreign competition for onshore overseas students and the likely fallout from BREXIT, the number of onshore overseas university students in the UK is unlikely to increase appreciably in the next decade.

**3.3. Offshore overseas students**

During the last 30 years, offshore overseas student enrolments have grown impressively - from an estimated 50,000 in the mid-1980s (almost all of which were distance learners) to an estimated 140,000 in 1996-97 to 403,000 in 2017/18, a six-fold increase. Rapid growth from the late 1980s-early 1990s was largely driven by the profit-seeking, entrepreneurial flair of the ex-polytechnic universities many of which were keen to seek out new market opportunities both domestically and overseas. However, largely as a result of wider UK university concerns about reputational damage due to low quality provision among overseas franchise and validation partners, offshore enrolments stagnated from the late 1990s; they increased by barely 4% between 2002 and 2007.

No robust research has been undertaken on the reasons for the surge in offshore provision that occurred after 2008 but a key factor is likely to be the increasing pace of commercialisation in the university sector in the UK which, as noted above, has been driven by the privatisation of university funding, particularly since 2010.

**Overall shares:** The overall share of onshore and offshore overseas students has almost doubled during the last 20 years - from 17% in 1996/97 to 31% in 2016/17. With foreign students comprising almost one-third of all students studying for UK university degrees, this is a significant level of internationalisation of education provision. Whereas onshore and offshore enrolment shares accounted for 10% and 7% of all students enrolled on university courses in 1996/97, this had narrowed to 16% and 15% respectively in 2016/17.

1. **FINANCIAL RETURNS: ONSHORE OVERSEAS STUDENTS**

**4.1 Overall returns**

The income generated from the increasing number of onshore overseas students studying at UK universities has become critical for the overall financial viability and sustainability for the higher education sector as a whole. The degree of financial dependence on overseas student fees varies considerably between individual universities, but, in 2016/17, overseas student fee income of £5.5 billion amounted to almost one-half of UK student fee income of £11.3 billion. Overseas student fee income has grown nearly tenfold since the mid-1990s as indeed have UK home fees. In England, overseas fees increased from 5% of total university income in 1996/97 to 16.4% in 2016/17. The corresponding increase for England home student fees is from 12% to 34%.

With the very large increase in UK undergraduate tuition fees, the non-EU-UK student fee differential has narrowed considerably during the last 20 years. However, in 2016/17, the average non-EU student tuition fee income of £15,200 was still nearly three times higher than the average UK student fee[[2]](#footnote-2).

**4.2 Country and university variations**

The relative importance of overseas student fees varies markedly both with respect to country, university category, and individual universities. Given low home fee levels in Scotland, overseas student fee income expressed as percentage of home fee income is relatively much higher than in England.

There is a strong negative relationship between a university’s degree of dependence on overseas student fee income and its ranking (see figure 1). At the highest ranked universities, total overseas fee income (expressed as a percentage of UK fee income) is typically well above 30% compared to less than 10% at the lowest ranked universities. Almost all the ex-polytechnic universities have overseas student income shares of less than 20% whereas the foreign income share at 80% of the ancient and redbrick universities is over 30% (see table 1). The relative profitability of overseas students (i.e. the ratio of average fee income/student for overseas and UK students) and the enrolment share of overseas students (as a percentage of UK students) are also both quite strongly correlated with university ranking (see table 2).

The high status universities in England are in a win-win situation since they charge the highest fees for overseas students while, at the same time, attract the largest numbers of these students. By contrast, the predominantly ex-polytechnic universities are in a lose-lose situation since they generally charge much lower fees for overseas students but, with a few exceptions, are still unable to attract large numbers of overseas students to the UK.

One possible explanation for this high level of internationalisation with respect to onshore overseas students is that it is mainly the consequence of to an essentially parochial, pragmatic response of universities to the withdrawal of UK central government funding coupled with the impact of very sizeable UK home student. However, most expert commentators regard this high level of internationalisation as the unfolding of a much longer-term, more profoundly significant historical and irreversible process of student internationalisation linked to the globalisation of higher education as a whole. The evidence from Scotland, where home student fees remain low and government central funding is still high, suggests that universities are still strongly committed to increasing overseas student enrolments as a part of a long term strategic goal of strategic global engagement. Income diversification is certainly part of this process of global engagement but the desire to internationalise the university’s activities as a whole is clearly apparent. Any significant reduction in home student fees (as promised by the Labour Party) would also provide a powerful test of the commitment of British universities to continue to recruit such large numbers of foreign students.

It is interesting to note that the recently published report by the UK Migration Advisory Committee on the ‘Impact of international students in the UK’, which was commissioned by the UK government, fails to recognise the financial importance of overseas students to the UK university sector. The report’s analysis of the ‘financial impact (of overseas students) on institutions’ is limited to just one page and is, therefore, rather superficial. The report’s key recommendation not to relax significantly immigration controls on overseas students, in particular by no longer including them in the government’s overall immigration quotas, is due in part to this shortcoming in recognising the financial significance of the overseas students for the UK university sector.

**5. FINANCIAL RETURNS: OFFSHORE STUDENTS**

**5.1 Overseas partnerships**

**Theoretical issues**: The resource intensity of the inputs expended by a university along with the level of income generated by overseas teaching partnerships are the two key factors in explaining the underlying economics of offshore partnerships. Where the UK university inputs are relatively low, the income earned from the partnership is essentially a form of rent. This is especially the case with high-enrolment validation and, to a lesser, extent franchise, courses. At the other extreme, fully collaborative partnerships typically involve relatively high inputs (especially of expensive ‘fly-in-faculty’) but have higher returns. The income earned from this type of partnership is a combination of pure rent and that which is earned from the provision of teaching and other support services.

In low-input overseas partnerships, once the validation or franchise fee per student has been negotiated, the UK partner university is effectively a price-taker with an infinitely elastic demand curve where the fee/student, (average revenue) always equals the marginal revenue earned by the last enrolled student. The fixed annual costs incurred by a university in managing the overseas partnership, especially quality assurance, are usually relatively low and marginal costs are even lower. In these supply and demand situations, marginal costs never exceed marginal revenue so even a strictly profit-maximising university would continue to allow partnership enrolments to increase indefinitely (see figure 2). Similarly, a revenue-maximising university, which is probably more typical of status-seeking not-for-profit organisations such as public universities, would never have to restrict partnership enrolments because total costs never exceed total income. This explains the strongly expansionist nature of these type of partnerships. As will be discussed below, most universities have little idea about the total direct and imputed staff costs of their overseas partnerships and, thus, despite the rapid commercialisation of key areas of university operations during the last 10-15 years, they are a long way from behaving in the same way as a strongly cost-conscious, profit-maximising private enterprise.

**Gross and net returns/student**: In 2015/16, the median revenue/student among the 52 university respondents with franchise and validation (FV) overseas courses was only £636 with lower and upper quartile values of £412 and £1054 respectively. Average revenue/student was £710. FV revenue/student is generally higher among the ex-polytechnic universities (see table 3).

As a broad generalisation, universities which focus mainly on collaborative partnerships generate the highest revenue/student[[3]](#footnote-3) while universities which have mainly validation partnerships have the lowest revenue/student. However, it is important to stress the very high dispersion of revenue/student across individual country partnerships not only between universities (see figure 3) but even within each university[[4]](#footnote-4).

A total of 32 universities provided overseas partnership expenditure data. Nineteen universities stated that this information was not collected and retrieving it would exceed the FOIA 18 hour time limit. Only one university declined to furnish this information on the grounds that it would enable ‘commercially sensitive’ net returns to be calculated.

The costs of overseas partnerships are higher than would be expected from simple rent-earning. Total expenditure as a percentage of total revenue was only less than 25% for 16% of universities and was over 50% at nearly two-thirds of universities (see table 4). This indicates that a good proportion of universities have to make relatively large resource commitments in order to deliver on their partnership commitments, especially when this involves teaching visits by UK faculty.

Absolute net returns are generally low for most overseas partnerships (see table 5 and figure 4). The median value was only £271 in 2015/16. Profit/student was less than £200 at one-third of universities and only more than £500 per annum at 18% of universities. This is a consequence of low revenue/student coupled with relatively high expenditure per student. Once again, though, these aggregate figures mask very large variations across partnerships even within one university. For example, profit/student for the nine main partnerships at Cardiff Metropolitan University ranged from £42 to £574 and for London Metropolitan University from £32 to £463.

Despite low absolute returns, the profitability of overseas partnerships is generally quite high. One-third are highly profitable with rates of return/student of over 50%, another one-third have returns of between 25-50% and the remaining one-third earn low returns (13%), just break even (9%), or have negative rates of return (9%) (see table 4).

**5.2 Online distance learning**

**Theoretical issues**: The income earned from distance learning is primarily from the delivery of a specialised learning service although there is undoubtedly some element of rental income from high status providers such as London University. Since distance learning providers provide a distinct service/product, they are faced with a downward sloping demand curve. The elasticity of demand for each distance learning course depends on numerous factors including the distinctiveness and overall attractiveness of the course and the level of national and global competition, which is likely to be quite intense especially for the ODL big-earners, most notably MBAs and accounting degrees.

No information is available, but development/start-up fixed costs for major distance learning courses are likely to have increased appreciably during the last two decades with the growing sophistication of online learning platforms. However, with large and increasing global enrolments, average and marginal costs are likely to fall appreciably and there are unlikely to be any conventional diminishing returns which are usually associated with fixed production capacity.

Faced with downward sloping demand/revenue and supply/cost curves, there are definite alternative price-output combinations depending on whether the university seeks to maximise profits, revenues or enrolments (sales) (see figure 5). The profit-maximisation price-output point occurs when marginal cost=marginal revenue, for revenue maximisation when marginal revenue equals zero (or a minimally acceptable profit/student), and enrolment (output) maximisation when average revenue=average costs. With the necessary data, it should be possible, therefore, to establish which of these maximisation strategies a university is pursuing with regard to its distance learning activities.

**Gross and net returns/student**: The median revenue/student among 32 the universities which provided information on overseas distance learning courses was £1,714 with lower and upper quartile values of £1,003 and £3,323 respectively in 2015/16. Average revenue/student was £1,426. Revenue/student is generally higher among the redbrick and plate glass universities (see table 3). Among the top 20 revenue/student earners, seven were ancient/red-brick, 10 plate-glass and only four ex-polytechnics. The former group have much longer track records with regard to distance learning provision[[5]](#footnote-5) and their relatively high international status is critically important in enabling them to recruit substantial numbers of students in generally highly competitive international distance learning markets, especially for MBA and other courses which have high tuition fees. Tuition fees for overseas distance learning courses were traditionally quite low especially courses offered by the Open University which were heavily subsidised. However, there has been a strong upward trend in tuition fees during the last decade with many courses now costing well over £10,000.

Overseas distance learning revenue/student at the largest provider, the University of London, has increased only fairly slowly, from £1,055 per student in 2012/13 to £1,320 in 2016/17 while enrolments have remained fairly stagnant. By contrast, at the OU, (which is the second largest provider), overseas revenue/student has increased threefold during the last decade, from £680 in 2007/08 to £2,103 in 2015/16, but its overseas enrolments fell threefold during the same period, from 26,480 to 8,370 in 2015/16. [[6]](#footnote-6)

The growing technical complexity of developing multiple ODL courses based on multi-media virtual learning environments is likely to have led to substantial increases in development/start costs which is increasingly leading to universities with a long-term strategic commitment to ODL to outsource provision with specialist distance learning digital platform specialists. However, the costs of this outsourcing are relatively sizeable which is likely to considerably reduce the overall net financial returns to universities. For example, Roehampton University, which has over 3,000 ODL students, reported a negligible net income of £1,400 in 2015/6 from these students.

Only 14 out of 32 of the responding universities with overseas distance learning courses were able to provide information on expenditures. The main reason cited for this is that no systematic and regular efforts are made to collect expenditure for this activity especially at larger universities (most notably London and Manchester) where distance learning courses are dispersed across numerous faculties and other centres. Thus, while universities have been forced to become far more commercialised, for the large majority, this is certainly not reflected in their basic accounting procedures for distance learning with the result that most have no clear idea how profitable this activity is. Moreover, without this information, it is impossible for a university to follow purposefully any kind of financial strategy (i.e. profit, revenue or enrolment maximisation).

While expenditure/student is typically much higher in absolute terms for overseas distance learning than for overseas partnerships, nearly 60% of ODL provision was highly profitable compared to only 35% for overseas partnerships (see tables 4 and 5).

Average surplus/student for overseas distance learning in 2015/16 was over £1,000 at half of the responding universities but only 7% of the universities with overseas partnerships exceeded this figure. However, although the numbers are small, distance learning provision was loss-making at 20% of universities.

**5.3 Overseas branch campuses**

**Theoretical issues**: As discussed earlier, the establishment of a reasonable sized overseas branch campus is, in many ways, the most tangible indication of a university’s overall objective of becoming a ‘global university’. High start-up costs appreciably increase the overall risks of this type of offshore provision and act as a potentially very significant barrier to entry for many universities. Forming joint ventures with local partners (as is required in China) enables UK universities to allay some of these risk and cost concerns.

The CB-BERT database on overseas branch campuses indicates that the median size of OBCs worldwide is currently only around 500 students. CB-BERT asserts that enrolments below this level are “unlikely to generate much revenue, let alone surplus”. However, it does not provide any evidence to support this assertion.

Estimating likely student recruitment at an overseas branch campus is also critically important and requires an in-depth understanding of the national market for higher education in the target country. OBC fees are typically two-four times higher than at national public universities, which clearly limit the potential numbers of students who can afford to enrol at the OBC. However, OBC tuition fees at UK universities are generally very competitive with equivalent fees for overseas students in the UK and, given much higher subsistence costs in the UK couple with international travel expenses, as long as an OBC can establish a strong local reputation, it is in a strong position to attract both students who would otherwise have gone overseas to study in the UK or could not afford to do so in the first place.

A 2014 report by the UK Department of Business, Innovation and Skills (DBIS) on the value of UK transnational education concludes that only ‘very small sums’ are remitted from overseas campuses to the UK. If this is the case, this suggests that UK universities are not strongly motivated to generate large profits from their overseas campuses but rather their prime concern is to maximise enrolments while ensuring UK quality standards which is part of wider university strategies to raise significantly their global profiles. Certainly, the overseas campus must break-even and a campus will fairly quickly be closed down if losses are sustained beyond an acceptable start-up period. As with overseas distance learning provision, the extent to which UK universities have adopted profit, revenue or enrolment strategies with respect to their overseas campuses could be empirically tested with good quality data and robust research methods.

**Absolute and net returns**: As expected, given the much higher costs of establishing and running overseas campuses (especially where relatively large numbers of UK or other international faculty are employed), median revenue/student was around £5,900 at the 11 UK universities with overseas campuses which provided data (see table 3). The lower quartile value is only slightly lower at £4,462 which suggests that there are fairly fixed minimum costs in establishing an overseas campus. The upper quartile value is £8,335 and the average revenue per student is £6,243.

Not surprisingly, given the scale and overall cost of establishing and running an overseas campus, UK universities generally have a clearer picture of their overseas campus expenditures than is generally the case for overseas partnerships and distance learning. Total overseas campus expenditure is only available for seven universities so considerable caution is required in analysing and drawing conclusions from this limited data. Surplus/student is over £1,000 for 43% of these universities but less than £500 for the remaining 57% of universities (see table 5). The profitability of branch campuses is generally considerably lower than both overseas partnerships and distance learning. One half have ‘low’ profitability and slightly more than one-third have ‘very high’ or ‘high’ profitability. None were loss making (see table 4).

As with overseas partnerships, the variability of financial performance at the few universities with multiple campuses can be marked. For example, in 2015/16, Middlesex University’s Dubai campus was quite profitable whereas its campus in Malta barely broke even and its campus in Malta made a loss.

**5.4 Total revenue**

With relatively large samples for each of the three main types of offshore provision and good quality data on revenues (if not expenditures), reasonably robust estimates of total revenues can be calculated based on official offshore enrolments[[7]](#footnote-7) coupled with the survey average revenues/student. However, time series data on offshore revenue is very patchy and possibly quite inaccurate. As noted earlier, the 2014 DBIS report was the first serious attempt to derive accurate estimates.

Total offshore revenue in 2015/16 was approximately £580 million and total surplus revenue was £140 million. In nominal terms, total offshore revenue was £75-100 million in the mid-late 1990s and remained fairly constant at around £200 million in the mid-2000s. By 2012/13, total offshore revenue had increased to an estimated £616 million in which case it fell by 5.7% by 2015/16. On the basis of these figures, revenue/student increased from around £500 in the mid-1990s, to £930 in the early-mid 2000s, and then doubled again to almost £2,000 in 2012/13. However, it fell appreciably to £1,500 in 2015/16 (see table 6). Significant declines in revenue/student for overseas distance learning and, to a lesser, overseas campus courses would appear to be the main reasons for this fall.

In 2015/16, overseas campuses had the highest revenue of £217 million (37% of the total), closely followed by overseas partnerships with £201 million (35%) and then overseas distance learning at only £163 million (28%). In 2012/13, revenue from overseas distance learning was reported to be 46% of total offshore income, 18 percentage points higher than in 2015/16. Again, this was due to a combination of falling revenue/student and sluggish enrolment growth.

In overall terms, total offshore student revenue was 1.7% of total UK university income, 3.6% of total tuition fee revenue and, despite having total enrolments of nearly 400,000, only 11.2% of onshore overseas student revenue in 2015/16 (see table 7). Offshore revenue/student was almost eight times less than for onshore overseas students. The relative importance of offshore income declined appreciably between 2012/13 and 2015/16, especially with respect to total and overseas student fee income.

For well over half of all surveyed universities, offshore student income was less than 2% of total university income in 2015/16 (see table 8). It was above 10% at only six out of the 12 universities where offshore enrolments were more than half of all UK enrolments. Four of these six (Heriot-Watt, Liverpool, Middlesex and Nottingham) have relatively large overseas campuses. The other two universities are Edinburgh Napier and Sunderland. Thus, even at universities with some of the highest offshore enrolments (most notably Anglia Ruskin, Leicester, Derby, Ruskin, Staffordshire, Greenwich, Cardiff Metropolitan, Roehampton, Lancaster, West of England), the income generated from this activity is less than 10% of all UK-based tuition fees. An index based on income rather enrolments is, therefore, likely to be a much better indicator of university internationalisation.

**5.5 Articulation income**

The 2014 DBIS study estimates that there were nearly 30,000 overseas students studying in the UK as part of articulation/progression arrangements with overseas partners. The total value of these students was estimated to be £711 million in 2012/13, which is nearly £100 million more than the total estimated value of all offshore student provision in that year.

Based on our survey of articulation/progression students, there were around 22,000 of these students in 2016/17 (see Author, 2019). The actual tuition fees charged for these students when they are studying in the UK has been assumed to be the average for non-EU overseas students as a whole although some universities do offer substantial ‘discounts’ of up to 30%. Total income for articulation/progression students was £334 million in 2016/17. Although this is well under half the DBIS estimate for 2012/13, it still amounts to around 60% of total offshore income (based on 2015/16 income estimates).

1. **CONCLUSION**

The two main conclusions of this survey are (i) the need to maximise the recruitment of high-value onshore overseas students is the main financial driving force for the internationalisation of education in the UK. The income generated from onshore overseas students is now critical for the institutional survival of a sizeable minority of UK universities; and (ii) the financial returns to offshore provision are generally quite low and, in overall terms, account for less than 4% of total tuition income. In the face of these low returns coupled with other non-financial factors, UK universities are increasingly rationalising/ consolidating their offshore provision.

Although UK (like most other public) universities are not conventional profit maximisers, it is likely that the low returns from most overseas validation partnerships, the majority of branch campuses and, increasingly, from distance learning courses will eventually lead UK universities to reduce significantly their involvement in these forms of offshore provision. The two main growth areas for offshore provision are likely to be, firstly, higher return but lower enrolment collaborative (joint degree and franchise) partnerships which also offer the opportunity for substantive research activity and, secondly, high volume articulation/ progression arrangements which enable universities to boost their onshore overseas enrolments and are, therefore, relatively very lucrative. In short, therefore, the current shift away from high-volume, low-return partnerships will continue and probably accelerate with increasing emphasis being given to low-volume, high quality, high-return partnerships.

With generally small and, at least relatively speaking, declining financial returns, from most overseas partnerships, universities are paying more attention to the non-financial benefits of overseas partnerships and, more broadly, their ‘global engagement’. This is especially the case for the richer, higher status universities which, with usually large numbers of relatively highly lucrative onshore overseas students, do not have particularly strong financial incentives to become heavily involved in generally much higher risk-low profit offshore provision. Low return - high-risk - low visibility validation partnerships will continue to interest only a relatively small group of mainly ex-polytechnic universities.

With the growing emphasis on the quality of partnerships rather than enrolment maximisation, UK universities, in particular those red brick and higher status plate glass universities which have been involved with offshore provision for more than a decade, are focusing more on collaborative partnerships and other kinds of joint ventures. These kind of partnerships score highly with respect to (i) quality assurance/reputational risk issues, (ii) high visibility branding; (iii) relatively high value added with low financial outlay and associated risks; and (iv) by teaming up with prestigious local public universities, provide the opportunity to engage in high quality, high impact research.

Some universities will continue to be attracted by the earnings potential of high tuition fee ODL courses (especially blended MBAs). However, international competition is quite intense and, ODL tuition fees in the UK are relatively high especially compared to ODL courses in the Middle East, South Asia and South Africa. Technological barriers to entry will also remain high for the foreseeable future which will probably lead to a significant number of UK universities contracting out their distance learning courses to specialist providers. This, in turn, will significantly reduce returns with ODL provision by UK universities becoming more akin to the rent seeking activity which is more characteristic of low-return franchised and validation forms of offshore provision.

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| **Table 1: Degree of dependence on non-EU fees: % UK universities, 2015/16 (%rounded)** | | | | |
| **Non-EU fees as % UK fees** | **England** | **Scotland** | **Wales** |  |
| **<10** | 30 | 13 | 33 |  |
| **10-19.99** | 32 | 0 | 33 |  |
| **20-29.99** | 10 | 13 | 33 |  |
| **30-39.99** | 21 | 27 | 0 |  |
| **40-49.99** | 8 | 20 | 0 |  |
| **50>** | 0 | 27 | 0 |  |

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| **Table 2: Relationship between onshore overseas student profitability index** | | | | | |  |  |  |
| **and non-EU students as % of UK students** | | |  |  |  |  |  |  |
| **Rank** | **Profitability index** | **% non-EU students** |  |  |  |  |  |  |
| **1 to 10** | 167 | 21.6 |  |  |  |  |  |  |
| **11 to 20** | 168 | 19.3 |  |  |  |  |  |  |
| **21 to 30** | 149 | 22.9 |  |  |  |  |  |  |
| **31 to 40** | 140 | 9.9 |  |  |  |  |  |  |
| **40 to 50** | 146 | 9.6 |  |  |  |  |  |  |
| **50 to 60** | 143 | 6.9 |  |  |  |  |  |  |
| **61 to 70** | 166 | 10.6 |  |  |  |  |  |  |
| **71 to 80** | 131 | 6.6 |  |  |  |  |  |  |
| **81 to 90** | 138 | 6.3 |  |  |  |  |  |  |
| **Notes: Profitability index = non-EU tuition income% total tuition income/non-EU students % UK students** | | | | | | | |  |

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| **Table 3: Offshore revenue/student by type of provision and university category, 2015/16** | | | | |
|  |  | **Lower quartile** | **Median** | **Upper quartile** |
| **Overseas partner** | **Redbrick/plate glass** | 302 | 488 | 1013 |
|  | **Ex-polytechnic** | 447 | 714 | 1082 |
|  | **All** | 412 | 636 | 1054 |
| **Distance learning** | **All** | 1003 | 1714 | 3323 |
| **Overseas branch campus** | **All** | 4462 | 5378 | 8335 |

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| **Table 4: Expenditure/student % revenue/student for FV, ODL and ODL courses, 2015/16 (percentage distribution).** | | | | | | | |
|  | |  |  |  |  |  |  |
| **Expenditure%revenue** | **Profitability** | **FV** | **ODL** | **OBC** |  |  |  |
| **<25%** | **Very high** | 16 | 14 | 23 |  |  |  |
| **25-49.9** | **High** | 19 | 44 | 13 |  |  |  |
| **50-74.9** | **Moderate** | 34 | 14 | 25 |  |  |  |
| **75-99.9** | **Low** | 13 | 7 | 50 |  |  |  |
| **100** | **Break-even** | 9 | 0 | 0 |  |  |  |
| **100>** | **Loss making** | 9 | 21 | 0 |  |  |  |

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| |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | | **Table 5: Profit/student for FV, ODL and OBC offshore provision, 2015/16** | | | | | | | | | **(rounded percentages)** | | |  |  |  |  |  | | | **£** | **FV** | **ODL** | **OBC** |  |  |  |  | | | **<0** | 18 | 21 | 0 |  |  |  |  | | | **1-999** | 21 | 7 | 14 |  |  |  |  | | | **200-499** | 43 | 7 | 43 |  |  |  |  | | | **500-999** | 11 | 14 | 0 |  |  |  |  | | | **1000>** | 7 | 50 | 43 |  |  |  |  | | | **Source: University Offshore Survey** | | | |  |  |  |  | | | | | | |
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| **Table 6: Offshore revenue/student from overseas partners, distance learners and overseas branch campuses, 1996-97 and 2015/16 (£ current prices)** | | | | | |
|  | | | | |  |
| **Year** | **Overseas partner** | **Distance learning** | **Branch campus** | **All** |  |
| **1996-97** | Na | Na | Na | 500 |  |
| **2003-04** | 500 | 2014 | 2706 | 932 |  |
| **2012/13** | 470 | 2285 | 7991 | 1925 |  |
| **2015/16** | 840 | 1430 | 6240 | 1500 |  |
| **Source: Bennell 1998, Lenton 2009, DBIS 2014, Author 2015/16 Survey** | | | | | |

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| **Table 7: Offshore student income as % of total UK university income, total overseas student tuition fees, 2015/16** | | | | |
|  | | | |  |
|  | **University income** | **Total tuition fees** | **Overseas tuition fees** |  |
| **1996-97** | 0.9 | 3.7 | 17.8 |  |
| **2003-04** | 1.2 | 4.8 | 15.3 |  |
| **2012/13** | 2.1 | 5.2 | 17.4 |  |
| **2015/16** | 1.7 | 3.6 | 11.2 |  |
| **Source: HESA data, 2015/16 university survey** | | |  |  |

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| **Table 8: Offshore student income as percentage of total university tuition fee income** | | | | |
| **and overseas tuition fee income, 2015/16 (% rounded survey universities)** | | | |  |
| **%** | **% total tuition fee income** | **% overseas student fee income** |  |  |
| **0** | 6 | 6 |  |  |
| **0.1-0.99** | 28 | 6 |  |  |
| **1.0-1.99** | 20 | 5 |  |  |
| **2.0-4.99** | 24 | 10 |  |  |
| **5.0-9.99** | 14 | 25 |  |  |
| **10.0--19.99** | 1 | 20 |  |  |
| **20.0-49.99** | 6 | 13 |  |  |
| **50.0-99.99** | 1 | 10 |  |  |
| **100>** | 0 | 4 |  |  |
| **Source: HESA data, 2015/16 university survey** | | |  |  |

**FIGURES**

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1. Funding body grants for universities in England fell from 35% of total income in 2007/08 to 12% in 2016/17. The corresponding percentages for Scotland, Wales and Northern Ireland are 41% and 27%. [↑](#footnote-ref-1)
2. With virtually all universities charging £9,250 per annum for UK domicile undergraduate students, the average figure of £5,700 for the UK as a whole seems very low. However, the reasons for this are (i) undergraduate fee levels are much lower in Scotland and Northern Ireland; (ii) there are large numbers of part-time students whose fee levels are around three-four times lower than for fulltime students; and (iii) postgraduate fees are generally appreciably lower than undergraduate fees. [↑](#footnote-ref-2)
3. The Alliance Manchester Business School at Manchester University is a good example of the relative high returns from collaborative partnerships especially for MBA courses. Total expenditure was £7.6 million and total revenue £13.2 million in 2016/17 yielding profit/student of £9,226. [↑](#footnote-ref-3)
4. Information on revenue and expenditure was provided by three universities which between them had 19 partnerships in 16 countries. Revenue/student ranged from less than £200 in six of these partnerships to over £500 in five partnerships. The university with the largest number of partnerships, Cardiff Metropolitan, partnership revenue/student ranged from £57 to £605. The corresponding range at London Metropolitan University is £36 to £988. [↑](#footnote-ref-4)
5. London University first offered distance learning course for overseas students in the early 1860s [↑](#footnote-ref-5)
6. An attempt (as part of a small pilot survey) to collect similar time-series information from other universities was abandoned because response rates were so low. [↑](#footnote-ref-6)
7. This information is collected annually by the UK Higher Education Statistics Agency. [↑](#footnote-ref-7)