The economic impact of UK higher education institutions

Summary
Introduction
Since the first Universities UK impact report appeared in 1997 the economic importance of higher education has been much more generally recognised and its contribution to national and regional economic development is attracting the attention of policy-makers. In the UK higher education is seen as being of key importance in the creation and transfer of knowledge to the economy through its teaching, research and other activities.

This new study presents key economic features of UK higher education in the academic and financial year 2003/04 and those aspects of its contribution to the economy that can be readily measured. The sector is analysed as a conventional industry, highlighting major economic characteristics of higher education institutions including their sources of revenue, employment created, output generated and export earnings attracted. It makes estimates of the economic activity generated in other sectors of the economy through the secondary or ‘knock-on’ multiplier effects of the expenditure of the higher education institutions, their staff and that of international students and visitors attracted to the UK by these institutions.

The report confirms the growing economic importance of the sector which had an income of £16.87 billion a year in 2003/04 (compared with £12.8 billion in 1999/2000), gross export earnings of £3.6 billion and employed 1.2% of the total UK workforce.

In terms of its wider economic impact the sector generated over £42.5 billion of output (it has a higher than average output multiplier). The equivalent figure five years ago was nearly £35 billion, confirming a rapid growth in economic impact.

The report also confirms the substantial employment effect of higher education activity with around 600,000 jobs being created throughout the economy in 2003/04. Of these some 330,000 people were directly employed by higher education institutions.

The report provides further evidence of the importance of international students to the sector and the wider economy. One significant impact is the volume of personal off-campus expenditure of these students, which amounted to £1.5 billion in 2003/04.

Key findings
Higher education institutions: direct income, expenditure and employment

- In 2003/2004, the total revenue earned by UK HEIs amounted to £16.87 billion. In terms of sectoral gross output this was greater than the UK pharmaceutical industry and only slightly smaller than UK legal activities and auxiliary financial services.

- HEI revenue from ‘core’ public sector sources (defined as funding council grants and academic fee payments from the public sector) accounted for just under 48% of all HEI income.

- Total revenue from all public sector sources amounted to £10.3 billion or 61% of all income.

- Income from private sector sources accounted for £4.6 billion or 27% of all HEI income.

- HEI international revenues (institutional gross export earnings) amounted to nearly £2 billion representing nearly 12% of all HEI income.

- In 2003/2004 UK HEIs spent £16.6 billion, with the single largest component of expenditure being labour costs, which accounted for 59% of all costs.

- HEIs directly employed over 330,000 people, which equated to approximately 280,000 full time equivalent (FTE) jobs. This was equivalent to 1.2% of total UK employment.

Sectoral gross outputs
Higher education institutions: secondary or ‘knock-on’ multiplier effects

- The expenditure of HEIs and their staff generated additional output and employment across the economy.
- For every 100 full time jobs within the HEIs themselves, a further 99 FTE jobs were generated through knock-on effects. Over 276,400 jobs in other sectors of the economy were dependent on the HEIs.
- For every £1 million of HEI output a further £1.52 million of output was generated in other sectors of the economy. This meant that an additional £25.6 billion of output was generated outside the HEIs as a result of their expenditure.

International students and visitors

- Personal (off-campus) expenditure of international students attending UK HEIs in 2003/2004 was estimated to be £1.5 billion. This was equivalent to 9% of all UK receipts from overseas visitors to the UK for the year 2004.
- Higher education makes a key contribution to business tourism. Personal (off-campus) expenditure of international business and recreational visitors to UK HEIs was estimated to be just over £106 million or around 1% of all UK receipts from overseas visitors to the UK for the year 2004.
- The expenditure of international students and visitors also generated output and employment throughout the country.
- International student expenditure generated £2.4 billion of output across the economy and over 21,900 jobs.
- International visitor expenditure generated nearly £200 million of output and over 2,700 jobs.

The overall impact of the higher education sector

- "Higher education sector" impact is defined in this study to be that of the higher education institutions together with that of international students and visitors to the HEIs.
- Gross export earnings for the HE sector in 2003/2004 were estimated to be over £3.6 billion. This includes the international revenue earned directly by the HEIs together with the additional personal expenditure of international students and visitors.
- In 2003/2004 the HE sector spent some £15.4 billion on goods and services produced in the UK.
- Through both direct and secondary or multiplier effects this generated over £42.5 billion of output and over 556,000 full time equivalent jobs throughout the economy. The total employment generated was equivalent to around 2.5% of the workforce in employment.
Method and data

The higher education institutions (HEIs) featured in this study are the 171 institutions included in Higher Education Statistics Agency (HESA) data for the academic and financial year 2003/2004. The study focused on the examination of key economic characteristics of the HEIs and the impact generated by their activity. The study also examined the impact of the off-campus expenditure of international students (i.e., all non-UK domiciled students) studying at the UK HEIs. Modelled estimates were also made of the impact of the off-campus expenditure of international visitors attracted to the UK by the HEIs.

The off-campus expenditure of UK domiciled students was excluded as this may not be regarded as additional to the UK economy as a whole. The model used was a purpose designed and specially constructed ‘type II’ input-output model based on actual UK data derived from the 2001 Office of National Statistics input-output tables together with labour force survey data.

About Universities UK

This publication has been produced by Universities UK, which is the representative body for the executive heads of UK universities and is recognised as the umbrella group for the university sector. It works to advance the interests of universities and to spread good practice throughout the higher education sector.

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